

## abstract

This article deals with valuing a ranch trophy property. It is a case study that summarizes a market analysis and highest and best use analysis of several use options for a ranch. Based on a quantitative analysis, it concludes that the most productive (valuable) use would be as a Ranch Preservation Community. The article also addresses a topic appraisers frequently face in valuing a trophy property—identifying and quantifying the contributory value of key attributes.

# Trophy Property Valuation: A Ranch Case Study

by Bill Mundy, MAI, PhD

Wrapped up in the booming preservation and conservation property market is a finite supply of western ranches that still capture the imagination, representing a lifestyle that is rapidly becoming an anachronism. Marketing materials that advertise the offering for sale of a “trophy” ranch, or promote a family vacation at a dude ranch play off the theme of John Wayne on a horse, punching cattle with a beautiful mountain scene in the background.

Between 1990 and 2000 the amount of acreage owned outright or under conservation easements increased threefold, from 886,000 acres to 3.8 million acres—a whopping 15.8% annual increase.<sup>1</sup> Twenty years ago it was possible to buy a small piece of agricultural real estate in the Rocky Mountain States or eastern Oregon or northeastern California for \$300 to \$500 per acre, or \$20,000 for a 40-acre “ranchette.” Today, that same forty acres would sell for anywhere from \$10,000 to \$20,000 per acre, or \$400,000 to \$800,000. Two countervailing forces—increasing demand and diminishing supply—are impacting the price for this type of property. That is why we see land appreciation rates approximating 20% per year. This figure is for a forty-acre parcel; think about the economics (demand, supply, price) and financial (return on investment) implications for a several thousand-acre property with a “John Wayne” setting.

These very unique properties create a substantial valuation problem for real estate appraisers. Because of the uniqueness of the property, data is limited. The markets for them are seldom local; rather they are national, even international, in scope. For example, a popular place for United States citizens to buy trophy ranch property is in the Patagonia region of Argentina. Sellers and buyers rely on national marketing sources such as the *Wall Street Journal*, Sotheby’s International, *Rocky Mountain Farm and Ranch*, and *Estates West: The Magazine of Luxurious Living*, as well as national and international real estate brokerage firms. The market for data is likewise national in scope, rather than local.

Therefore, a trophy property is defined as an investment-grade property representing the top two to three percent of property in its particular land use category that is distinguished by special high quality attributes that will attract the financial resources, in cash, to purchase it.<sup>2</sup>

1. Land Trust Alliance, [www.lta.org](http://www.lta.org), December 3, 2001.

2. Bill Mundy, MAI, PhD, “Defining a Trophy Property,” *The Appraisal Journal* (October 2002): 377–379.

## The People and the Property

The following are a few examples of the people and property that make up this market.

**Ted Turner.** With over 1.7 million acres in Montana, New Mexico, South Dakota, Nebraska, Kansas, and Florida, Mr. Turner is the largest individual landowner in the U.S. Most of his land holdings were acquired and are currently managed with the goal of protecting or restoring their natural ecological integrity. On his largest acquisition, the 580,000-acre Vermejo Park Ranch in New Mexico, Mr. Turner has removed hundreds of miles of fencing and replaced cattle herds with more environmentally gentle buffalo.

According to a *Seattle Times* news article, Turner is involved in similar enhancement or restoration projects on his other holdings and through the Turner Endangered Species Fund, aiding in the protection and reintroduction of numerous fish, bird, and mammal species in areas where their habitats are threatened.<sup>3</sup> Though clearly acting with an environmental ethic, Turner also purchases properties to generate income and for his own recreational enjoyment. Known to be a keen fisherman, he has bought riverfront acreage in Montana and as far away as Barlouche, Argentina for the premier fishing opportunities available on those sites.

**Alan Cook, the Cook Ranch, Wyoming.** This ranch is unique due to its size and variety of natural characteristics (biodiversity, according to environmentalists). It encompasses 117,000 acres with world-class paleontology, archaeology, biology (wildlife and plant communities), and geomorphology (rock arches, caves with petroglyphs); seventeen miles of river frontage with world-class native fish populations; and significant history (as headquarters of the old 3.5 million-acre Swan Land and Cattle Company).<sup>4</sup>

**John Malone.** Mr. Malone is a fine example of an astute investor who is aware of the economic realities of this type of property. He is the recent seller of TCI to AT&T and because of his significant wealth wanted to diversify his investment portfolio into a more “stable investment.” He recently invested more than \$125 million in trophy ranch property.<sup>5</sup>

## The “Typical” Trophy Ranch Property

The “subject” of this case began as a simple, but nice, ranch property appraisal.<sup>6</sup> The 2,560 deeded-acre property is a working ranch affected to a limited degree by urbanization pressures—principally second home and ranchette.<sup>7</sup> It is bordered by state and national forest and park on three sides and another ranch on the fourth side. It is rectangular in shape and has a good-sized stream that flows some six miles through it, then through the neighboring ranch, emptying into a river with a very good trout fishing reputation. It is partially forested, and there are numerous meadows and irrigated creek bottom areas.

The owner purchased the property some fifteen years ago, principally for its beauty and excellent fishing. There was a typical set of improvements on the property when purchased. The owners have added a four-bedroom 6,000-square-foot log and timber home with two guest suites and all the modern accoutrements.

## Highest and Best Use Analysis

As with most appraisals, it appeared as if the highest and best use would be fairly cut-and-dried. The physically possible, legally permissible, financially feasible, and maximally productive criterion pointed toward ranching. After all, that is what was being practiced in the area. However, there were also some second home sites and ranchettes nearby.

A check at the county zoning and planning office and with a local land use planner revealed the subject could legally be subdivided into 25 separate 100-acre parcels. In fact, there was a Planned Unit Ordinance that would allow clustering to encourage open space. This could offer conservation easement possibilities, with accompanying tax benefits.

Therefore, sales of local area ranches as well as 100-acre second home sites were brought together and analyzed. The ranch comparable sales indicated a value of \$400 per acre. Second home/ranchette data was analyzed based on a retail and wholesale basis. Absorption, retail sales, selling costs, development costs, and developer’s profit were analyzed on a cash flow basis (pro forma) and discounted back to a present value. This process indicated a value of \$1,500 to \$2,000 dollars per acre. Several similar sale properties in the region were found that had sold with the

3. Barry Massey, “Ted Turner Turning Back Time in West,” *The Seattle Times* (March 12, 2000): News Section.

4. *Estates West* (July 2000) and Mundy Associates LLC files

5. Conrad Elliot, “Trophy Ranches,” *Estates West* (July 2000): 156.

6. Mundy Associates LLC bases this on an actual valuation analysis. Descriptive information has been altered so as not to disclose the property that was valued.

7. Deeded-acres are fee-owned acres belonging to the ranch owner, in contrast to a ranch with a combination of deeded plus leased or allotted or permitted acres owned by someone else, often the federal government.

intent of subdivision. After adjusting for time and other substantive differences, the sales indicated a value for the subject property of \$2,000 per acre.

However, our market and value analysis of preservation, conservation, and trophy property suggested an alternative land use might be viable due to the strong amenities found on and within the vicinity of the subject property. This is what we have termed the Ranch Preservation Community (RPC).<sup>8</sup> An RPC is an “interest” in a trophy ranch. Typically, there are two interests—a fee interest and a common interest. The fee interest conveys fee simple title to a small tract of land, typically a “building envelope” on one to three acres for a home site, guest home, and minor ranch stead (or homestead) improvements. The common interest is an undivided interest in the remainder property, which may include the right to an easement donation.

The Ranch Preservation Community use was not an obvious highest and best use, therefore a market analysis was conducted to determine how and if this might compare with subdividing the property into 25 ranchette sites.

### Market Analysis

There are numerous ways in which to conduct a market analysis. One of the most popular (in fact, the method taught in the Appraisal Institute’s Course 520: *Highest and Best Use and Market Analysis*) is the observation method. That is, going into the marketplace, observing what the competition is doing, quantifying that, and arriving at conclusions regarding market acceptability. A second option is to use market research methods—specifically, survey research techniques such as those used where new products are being developed. In the following analysis we rely on the observation method.

Numerous sources were used to develop a database of RPCs, including marketing publications such as *Sotheby’s* and *Estates West*; conversations with real estate brokers and appraisers familiar with this type of property; and, finally, our own resource base. Ten RPCs in the Rocky Mountain States were identified. Each was visited and relevant market data was developed. This data is shown in Table 1.

The material in Table 1 provides some clues regarding the important attributes of a trophy property and of an RPC. Consistently important trophy property attributes were:

- Privacy
- Exclusivity

- Natural beauty
- Recreational opportunities (hunting, fishing, skiing, hiking)
- Scarce resources (archaeology)
- Resources of scientific interest (biodiversity)
- High quality improvements
- Urban service proximity (medical, retail conveniences, entertainment)

Attributes identified that were offered by RPCs but of lesser importance included:

- Equestrian facilities
- Ranch manager
- Natural resource manager
- Remote cabins
- Concierge
- Visitor/guest lodge
- Recreation facilities (pool, tennis, golf)
- Adjacency to large blocks of publicly owned land, such as wilderness areas

Some of the data from Table 1 is summarized in Table 2b, which is arrayed by average lot price. Several important relationships are summarized as follows:

- The developments that have fewer lots tend to have much higher lot selling prices.
- While the absorption of developments with a large number of lots that sell for less is greater, the absorption for smaller, higher-priced developments is still respectable at nearly one per month.
- Comparing the total number of acres per homestead indicates that they are nearly the same for developments with lower- and higher-priced lots. However, when comparing the number of deeded acres per homestead, the higher-priced developments have two times as many deeded acres (167 versus 83).
- The average homestead size was three times greater at the more expensive developments.
- Even though annual fees at the higher-priced RPCs are more than six times greater than the lower-priced communities, they still had an absorption of 10 homesteads per month, on average.

This data suggests that one might expect absorption of around one lot per month with a development that has a high ratio of land to home sites where the number of home sites is kept to a minimum (approximately 15) and where prices can be relatively

8. Ranch Preservation Community, or RPC, is a term coined by the staff at Mundy Associates LLC to denote a particular type of land use.

**Table 1 Ranch Preservation Community Market Data**

Characteristics	Sale #1	Sale #2	Sale #3	Sale #4	Sale #5	Sale #6	Sale #7	Sale #8	Sale #9	Sale #10
Total size	2,380	1,063	1,700	12,600	3,800	5,900	4,700	2,000	14,900	14,000
Deeded acres	1,280	1,063	1,700	5,600	3,800	5,900	1,200	2,000	4,900	14,000
Permit acres	1,100	-	-	7,000	-	-	3,500	-	10,000	-
Common/preservation acres	-	793	1,400	4,200	3,550	1,770	1,600	4,750	22+	-
# of homesteads	39	14	32	22	22	210	50	55	15	85
Homestead size (acres)	5 to 16	35 to 70	40 to 50	70	2 to 4	20	20	4 to 11	8 to 10	160
Building envelope (acres)	none	3 to 5	5 to 12	10	none	none	1 to 1.5	none	1 to 2	10
Shared ownership	yes	yes	equest. ctr only	yes	yes	no	no	yes	yes	yes
Res/rec amenities										
Hunting	X			X	X		X			X
Fishing	X	X	X	X	X	X	X	X	X	X
Trails	X	X	X	X	X	X	X	X	X	X
Winter sports	X	X	X	X	X	X	X	X	X	X
Other	X	X	X	X	X	X	X	X	X	X
Developed amenities										
Equestrian	X	X	X	X	X	X		X	X	X
Visitor/guest lodge	X	X		X			X			X
Club house/lodge	X	X	X	X	X	X	X	X		X
Remote facilities		X		X	X				X	X
Golf course							X			
Pool/tennis						X	X (hot tub)			
Other						X	X			
Management services										
General/ranch manager	X	X	X	X	X	X		X	X	X
Resource manager	X	X			X				X	
Concierge service		X		X	X		X	user fee		
Price range/lot	\$289,000	\$2,650,000	\$475,000	\$2,500,000	\$3,000,000	\$78,500	\$400,000	\$290,000	\$169,400	\$1,200,000
Average:	\$450,000	\$3,400,000	\$900,000	\$5,100,000		\$500,000	\$775,000	\$367,000	\$840,000	\$1,650,000
Association fees	\$365,000	\$3,025,000	\$687,500	\$3,550,000	\$3,000,000	\$140,000	\$587,500	\$328,500	\$500,000	\$1,425,000
Absorption	\$1,200	\$30,000		\$35,000	\$70,000	\$660		\$3,120	\$18,000	\$6,000
Lots sold/months (actual)	22lots/ 18-24mos	12lots/ 8mos	5lots/ 11mos	5lots/ 5mos	2 closed, 3 lot*	150lots/ 36mos	2lot*/ 6mos	12lots/ 120mos	15lots/ 18mos	42lots/ 36mos
Annual rate (to date)	12.5	18	5.5	12	8.8	50	1.2	10	10	14
Targeted annual rate (full absorption)	13			5.5		21	10			

\* lot = letters of intent  
Source: Mundy Associates LLC

**Table 2a Price: Homestead Data**

Sale #	Average Lot Price	Number Homesteads	Annual Absorption	Annual Fee	Size	Deeded Acres	Acres/Homestead	Deeded Acres/Homestead
1	\$140,000	210	50.0	\$ 660	5,900	5,900	28	28
2	\$330,000	55	1.3	\$ 3,120	2,000	2,000	36	36
3	\$365,000	39	12.5	\$ 1,200	2,380	1,280	61	33
4	\$500,000	15	10.0	\$18,000	14,900	4,900	993	327
5	\$600,000	52	NA	NA	4,700	1,200	90	23
6	\$700,000	32	3.3	NA	1,700	1,700	53	53
7	\$1,400,000	85	14.0	\$ 6,000	14,000	14,000	165	165
8	\$3,000,000	14	12.0	\$30,000	1,063	1,063	76	76
9	\$3,000,000	22	8.8	\$70,000	3,800	3,800	173	173
10	\$3,300,000	22	5.5	\$38,000	12,600	5,600	573	255

**Table 2b Price: Homestead Relationships (Averages)**

Variable	Value Range	
	\$140,000–\$700,000	\$1,400,000–\$3,300,000
Number of homesteads	67	36
Total acres per homestead (ac.)	210	247
Deeded acres per homestead (ac.)	83	167
Average homestead size (ac.)	20	70
Annual absorption (lots)	44	10
Annual fee	\$5,745	\$36,000

Source: Mundy Associates LLC

high compared to the competition. In this analysis, we concluded prices should be greater than \$1.4 million but less than \$3.0 million, therefore falling in the lower end of the high lot price market segment.

Table 1 indicates that there are important attributes consistently found at the higher-priced RPCs, such as:

- Excellent fishing
- Trails
- Club house/lodge
- Remote facilities
- Ranch manager

Attributes typically (frequently but not consistently) found include:

- Shared (common) ownership
- Hunting
- Resource manager
- Concierge service

Therefore, based on the analysis of ten RPCs, we conclude there would be demand for a land use at the

subject of approximately 15 fee-owned sites approximately 10 acres in size, selling at approximately \$2.0 million per home site with an absorption of approximately five per year, and including the above attributes, all of which are either available or can be made available at the subject property. This use indicates a wholesale or net value of \$2,500 to \$2,700 per acre, as the following valuation analysis will demonstrate.

Consequently, we conclude that a Ranch Preservation Community represents the highest and best use of the subject property.<sup>9</sup>

### Valuation Analysis

Two methods are used to estimate the value of the subject property—the income approach (subdivision method or retail method) and the sales-comparison approach (wholesale method).

### Income Approach

The income approach is based on the market analysis discussed above as well as market research with local contractors, the developers of other RPCs, and discount rates for developments with similar risk. This analysis

9. Market and value research indicates that, in certain cases, a higher and better use than an RPC may exist, which is the purchase of the property as a trophy property by a single buyer, as was discussed in “The People and the Property” section. There are situations, though, where the owner of a trophy property wants to retain an interest in the property, where several buyers purchase a property and sell interests in it or where there is not a likely single buyer.

leads us to the opinion that the subject property could achieve the following pro forma characteristics:

- Homestead (lot) sales rate of approximately five per year
- Marketing expenses (selling costs such as advertising and commissions, title and escrow fees, etc.) at 15% of gross sales
- Construction costs as follows:
  - Guest/main lodge: \$2,000,000
  - Equestrian center: \$750,000
  - Back country cabins (3): \$400,000
  - Roads: \$3,900,000
  - Power and phone: \$1,100,000
  - Water and septic: \$850,000
  - Cultural resource inventory/exhibits: \$100,000
  - Resource enhancement: \$900,000
  - Total construction costs: \$10,000,000
- 80% of the development costs would be incurred in Year 1, the remaining in Year 2

- Entrepreneurial profit requirement of 25% of gross margin
- Discount rate of 20%

Table 3 shows the results of the above. It indicates a discounted present value of \$6,855,903, rounded to \$6.9 million, which is the value indicated by the income approach.<sup>10</sup>

### Sales Comparison Approach

As a part of our market analysis we found five transactions that have characteristics similar to those of the subject property and that were subsequently developed into a use similar to that use we concluded would represent the highest and best use of the subject. Those transactions are shown in Table 4.

These five transactions were compared and contrasted to the subject. The sale properties are all typical of trophy properties: they are unique. There are few sales because of the limited supply, especially in the proximate area of the subject. They are all typical of investment grade properties—highly sought

**Table 3 Discounted Cash Flow Analysis**

		Year 1	Year 2	Year 3
Lot sales		5	6	4
Lot price	\$1,900,000	\$1,900,000	\$1,900,000	\$1,900,000
Gross sale revenue		\$9,500,000	\$11,400,000	\$7,600,000
Marketing expense	15.00%	\$1,425,000	\$1,710,000	\$1,140,000
Sales income		\$8,075,000	\$9,690,000	\$6,460,000
Construction costs	\$10,000,000	\$8,000,000	\$2,000,000	\$0
Gross margin		\$75,000	\$7,690,000	\$6,460,000
Entrepreneurial profit	25.00%	\$18,750	\$1,922,500	\$1,615,000
Net income		\$56,250	\$5,767,500	\$4,845,000
Discounted present value	\$6,855,903			
Discount rate	20.00%			
Value/acre	\$2,678			

**Table 4 Ranch Community Developments—Original Purchases**

Attribute	Colorado	Colorado	Montana	Montana	Montana
Location					
Seller	1	2	3	4	5
Buyer	A	B	C	D	E
Date	Jan. 99	Apr. 99	Aug. 00	Dec. 00	1998
Sale price	\$2,218,000	\$17,000,000	\$8,325,000	\$5,674,600	\$16,800,000
Size (ac.)	1,180	5,600	3,408	1,200	14,000
Price per acre	\$1,880	\$3,036	\$2,443	\$4,729	\$1,200
Overall Comparability	Inferior	Superior	Comparable	Superior	Inferior

10. The DCF in Table 3 is a significantly abbreviated analysis. Analysts would want to carefully analyze supply, demand, price, price appreciation/depreciation, changing costs, and rates of return variables with the possible employment of sensitivity analysis as a part of the income approach.

after (good demand), sold for cash, and possessing attributes, such as those described in the market analysis section, that attract buyers with the financial resources to make the transaction.

Because of the limited number of transactions, it is not possible to quantify value differences on an attribute-by-attribute basis as a part of this analysis. However, there are several techniques that can be used to quantify these differences. These include the use of multiple (hedonic) regression and conjoint measurement. Regression analysis is a statistical technique that requires a large number of sales transactions with good quantitative descriptive information on the attributes of each transaction.<sup>11</sup> Conjoint measurement is a survey research technique that develops utility (price) functions for attributes of a product.<sup>12</sup> Survey research also provides the opportunity to develop buyer socio-economic and demographic profiles.

Based on our inspection of the sales properties and the market analysis that provided us with insight regarding the relative importance of different property attributes, we have rated the sales as inferior, comparable, or superior to the subject.

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#### Property Rating Based on Attribute Quality

Inferior	Comparable	Superior
Ranch 1 @ \$1,880/ac	Ranch 3 @ \$2,443/ac	Ranch 2 @ \$3,036/ac
Ranch 5 @ \$1,200/ac		Ranch 4 @ \$4,729/ac

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This data indicates the value of the subject is most likely greater than \$1,900 per acre and less than \$3,000 per acre. Nestled near the middle of this range is Ranch 3, which was deemed comparable and sold for nearly \$2,500 per acre. Therefore, we conclude the sales comparison approach indicates a value of approximately \$2,500 per acre.

#### Reconciliation

The income approach indicates a value of \$2,700 per acre, while the sales comparison approach indicates a value of \$2,500 per acre. Each of the approaches has various strengths and weaknesses. Strengths, for example, are the market research on how the property should be developed and one good market transaction. Weaknesses, on the other hand, are the lack of support for a discount rate, lack of data upon which to make comparable sale adjust-

ments and an inadequate number of market transactions of similar property. It is therefore concluded the market value of this property falls in a range of \$2,500 to \$2,700 per acre and is most likely \$2,600 per acre or \$6.65 million for the 2,560 acres.

#### Conclusion

The valuation analysis ends with the certification page and appropriate appendices. In summary, this case study of the process of valuing a property that, on the surface, might appear to be a typical ranch shows how carefully observing other property uses in the marketplace; bringing together supply, demand, and transaction (price) data on those properties; fully understanding the biological characteristics of the subject and sale properties; carefully analyzing that data to reach a conclusion regarding the highest and best use of the property to be valued; and then proceeding with appropriate techniques to value the property can produce a credible and defensible valuation analysis.

The case study also provides insight regarding the characteristics of a trophy property, in particular a trophy ranch, and how a new market, the Preservation Ranch Community, is evolving.

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11. Gilbert A. Churchill, Jr., *Marketing Research: Methodological Foundations*, 5th ed. (Chicago: Dryden Press, 1990): 840.

12. *Ibid.*, 464.