

***--FSA Appraisal Guidelines for Dairy**

Dairy Addendum to FSA Appraisal Guidelines

The following information elements and content descriptions are provided as guidelines to assist the lenders and appraisers to deliver a USPAP compliant appraisal report acceptable to FSA. Information Element labels should be used in the report for clarity.

A Dairy appraisal following FSA’s Guidelines for guaranteed lenders in conjunction with the Dairy Guidelines completed by a qualified Certified General Real Estate Appraiser will meet FSA’s underwriting rules.

For unique situations that do not fit the following guidelines, contact FSA with questions.

Item	Information Element	Content Description
1	Market Description	Summarize the market for milk and dairy products in the subject’s marketing area with emphasis on the number of milk handlers and/or milk cooperatives. Are there sufficient alternatives for milk sales in the local area? Explain the supply and demand factors. The availability of support services for dairying should be addressed in the appraisal report.
2	Subject Description	<p>Describe the following building categories of the dairy operation in sufficient detail and in relation to their utility and contribution to the whole enterprise: describe the livestock facilities design and capacity for cows and young stock, milking facilities, feed storage, machinery & equipment storage, fixtures, personal property, and waste storage and handling. State and discuss the actual ages, effective ages and remaining economic lives for the farm buildings or building categories listed above. Discuss condition and any prior repairs/upgrades to the property’s buildings with actual or estimated costs. Describe farm dwelling(s) and other outbuildings with contributory value.</p> <p>For new construction, summarize the actual construction cost quotes/estimates associated with the new construction and include in the appraisal copies of quotes and specifications that are sufficient to adequately describe the proposed construction.</p> <p>If an existing facility is appraised “as-improved” that will include repairs/upgrades, document the proposed repairs/upgrades and include the estimated cost.</p>

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*-- FSA Appraisal Guidelines for Dairy (Continued)

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Item	Information Element	Content Description
2 (Cntd)	Subject Description (Continued)	<p>Identify the legal permitted capacity in AUs (animal units). Identify and discuss if the dairy is a confined animal feed operation (CAFO). Does the CAFO have an approved nutrient/manure management plan that is in compliance, with adequate and available acres? Appraisers should be provided with information related to the operations status as a CAFO and compliance on their nutrient/manure management plan when the information is available. Appraisers should review and discuss this information with the property owner and note any compliance issues. Analyze and discuss the market area feed base capacity to support the operation.</p> <p>Discuss the available legal surface and groundwater rights (verification if available) necessary to support the projected dairy capacity in the analysis.</p> <p>Identify and differentiate between the equipment considered personal property and fixtures required for the ongoing farm operation for the subject and/or sales. Show contributory value separately for non-real property items.</p>
3	Approaches to Value	<p>For dairy appraisals, generally all three approaches are applicable and necessary.</p> <p>Analyze available local sales to adequately support the value of the subject's dairy facilities. When there are insufficient local sales, regional sales may be considered. Analyze and adequately support adjustments for locational differences if applicable. Discuss and support the selection of comparable sales. Sales selected should reflect the attributes of the subject and should be similar operations. Sales verification is the key to the analysis of dairy farm sales and should include the same degree of building description and analysis as listed above under "Subject Description".</p> <p>Analyze subject and sales in the same manner and include sufficient detail from the sales analysis in the appraisal to support the appraisal. Units of comparison, as determined from the market, should be discussed. Commonly used units of comparison for dairy farms are \$/acre or \$/stall/milk cow.</p> <p>The exclusion of any of the 3 approaches to value must explain why an excluded approach is not necessary for credible results.</p>

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*--FSA Appraisal Guidelines for Dairy (Continued)

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Item	Information Element	Content Description
4	Sales Comparison Approach	<p>Show direct (head to head) comparison of subject and sales summarized in a grid. Explain and support all adjustments in sufficient detail. Explain how the value opinion was selected from the direct comparisons (i.e. which sales were given the most weight). Comparability of sales should focus on similarities relating to housing (conventional or free stall) and feed (purchased/grown/land base) and/or other similarities that influence value.</p>
5	Cost Approach	<p>Show cost approach calculations including replacement cost new (RCN) estimates and contributory values. Use typical cost for RCN calculations and discuss any differences in actual quotes/estimates from typical cost (if applicable). Provide market data to support typical RCN. Sales analysis should support depreciation rates and typical economic life.</p> <p>Include the following for subject and sales:</p> <ul style="list-style-type: none"> • Show the contributory value of each building with significant contributory value and discuss effective ages and remaining economic life, taking into account physical, functional and external obsolescence. Buildings of like use, age, and condition can be grouped for analysis purposes and should be adequately described. • Show the contributory value of fixtures/equipment and discuss effective age and remaining economic life, taking into account physical, functional and external obsolescence. • Show the contributory value of the land components supported by local sales and state the contributory value of any site improvements (wells, septic tanks, pads and roads) as a separate entry, or as part of the building contributory value. If site improvement value is included as part of the building contributory value, ensure that any value differences are explained and discussed.

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***--FSA Appraisal Guidelines (Continued)**

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Item	Information Element	Content Description
6	Income Approach	<p>Cash rent and typical owner/operator are the generally suggested methods used for income approach calculations. If cash rent information is limited, typical owner operator data can be used from dairy farm business summaries of similar sized dairy operations to estimate typical incomes and expenses.</p> <p>Projected income and expenses for other farm enterprises should be addressed as well. Discuss the subject's enterprises actual income & expenses vs. typical when significant differences occur. Property should be appraised on a fee simple basis verse a leased fee basis.</p> <p>Discuss selection of cap rates and which sales are given the most weight. Rate selection should be from similar sales and homogenous data, i.e., cash rents comps or owner/operator mirroring the method used for the subject.</p>
7	Reconciliation & Final Value Allocation	<p>Reconcile the three approaches to value and discuss which approach is given the most weight.</p> <p>Allocate the final value opinion into the contributory value of the component parts for the land, land improvements, and structural improvements (including fixtures and equipment).</p> <p>The contributory value of any non-real property items included in the value should be shown separately and discussed.</p>

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