

## Conservation Easement Valuation

When a conservation easement is put into place, a professional appraiser assigns it a monetary value. The *easement value* (EV) is the difference between the *fair market value* (FMV) of the property (the price it is expected to sell for before the easement restrictions) and the value of the property with its easement restrictions (the *conservation* or *agricultural value*). Landowners may donate or sell easements, and the amount donated or sold refers to the monetary value of the rights removed by the easement.

### Valuation Example

Farmer X has a 100 acre farm which has been appraised at \$600,000 (FMV = \$600,000). The appraiser then determines that with an easement's restrictions, the land's value is \$200,000 (AGV = \$200,000). The easement value is calculated as follows:

$$\begin{array}{r} \text{FMV} = \$6,000/\text{ac} \times 100 \text{ acres} = \$600,000 \\ \text{Subtract (--)} \quad \underline{\text{AGV} = \$2,000/\text{ac} \times 100 \text{ acres} = \$200,000} \\ \text{EV} = \$4,000/\text{ac} \times 100 \text{ acres} = \$400,000 \end{array}$$

The easement value is \$400,000 or \$4,000/acre.

**Easement Sale:** In an easement sale, a landowner offers an easement to the HCFPB for a price, the offering price (OP) is negotiated, and the landowner is paid for the value (or portion of the value) of the conservation easement. Any easement value not paid for is value donated and may yield tax benefits.

**Easement Donation:** In easement donations, landowners are not paid for easement values. No money changes hands, as the entire easement value is donated. This donated value (DV) may, however, qualify landowners for income and estate tax deductions. Conservation easement donations are generally considered by the IRS (and many state treasuries) to be charitable donations. Through 2009, farmers can apply charitable donations to up to 100% of their income over 16 years. Non-farmers may deduct up to 50% of their income.

### Offering Price/Donated Value Example

Farmer X decides to offer an easement to the HCFPB at \$2,200/acre, less than the full easement value.

$$\begin{array}{r} \text{EV} = \$4,000/\text{ac} \times 100 \text{ acres} = \$400,000 \\ \text{Subtract (--)} \quad \underline{\text{OP} = \$2,200/\text{ac} \times 100 \text{ acres} = \$220,000} \\ \text{DV} = \$1,800/\text{ac} \times 100 \text{ acres} = \$180,000 \end{array}$$

If approved, the OP (offering price) is the amount Farmer X will be paid for his easement. The DV (donated value) is the amount of the easement value that Farmer X has donated. This donation may qualify Farmer X for a tax deduction.

### Definitions

*Fair Market Value:* the price a property is expected to sell for without any restrictions

*Agricultural/Conservation Value:* the price a property is expected to sell for *with* easement restrictions

*Easement Value:* the value of the rights removed by the easement restrictions; the difference between a property's fair market value and its agricultural/conservation value

*Offering Price:* the amount a landowner requests to be paid for the rights restricted by the easement

*Donated Value:* the value of the easement for which the landowner is not paid (all or part of total value)