

Income Approach

The income approach is one of the three approaches to value in appraisal where the value of the property is derived by converting the expected income generated from a property into a present value estimate using one of many income capitalization methods.

In this approach, a property is viewed through the eyes of a typical buyer whose primary objective is to earn a profit on the investment generated from the operation of the enterprise. The theoretical basis for this approach comes from the principal of anticipation and applies because the value of a property is, in theory, the present value of expected future cash flow. The principle of substitution is also applicable because income for the subject property must be in line with those of competitive (substitute) enterprises. Furthermore, the value estimated by the income approach assumes that operators will earn a rate of return that is consistent with that available for alternative investments of comparable risk. In this application, the enterprise is expected to be under responsible management. Farm income, specifically poultry income, has been extracted from actual schedule F tax returns and analyzed for comparison to comparable sold enterprises. When management is deemed less than adequate or current operations lack longevity, I have estimated the expected income based on competing enterprises.

Expenses have been applied by either utilizing actual Schedule F expenses or estimated by comparison to other competing operations. Repairs and maintenance expenses include normal operating expenses, maintenance, and updates of the buildings and poultry equipment. A yearly replacement and reserve allowance has been applied to replace poultry equipment at the end of its economic life, estimated to be 15 years, derived as follows: $\text{cost} / \text{economic life} = \text{reserve allowance}$.

Income approach capitalization rate estimation has been estimated by market extraction from a sales study. All data in the sales study has been examined and compared to the subject to attempt to extract sales which mirror the subject. The following sales are felt to most nearly mirror the subject and have been utilized to extract an acceptable capitalization rate. Sale prices have been adjusted on sale #7 to reflect excess land. Based on these following selected sales, I have estimated a capitalization rate for the subject of 7.5

1	Broilers	Closed 3/08	
	Sale price \$750,000	NOI \$54,018	.072 cap rate indicated
2	Broilers	Closed 10/07	
	Sale price \$1,250,000	NOI \$101,901	.0815 cap rate indicated
3	Broilers	Closed 1/06	
	Sale price \$905,000	NOI \$68,051	.075 cap rate indicated

Income Approach (continued)

4	Broiler-breeder Sale price \$650,000	Closed 2/08 NOI \$34,706	.061 cap rate indicated
5	Broiler-breeder Sale price \$500,000	Closed 3/08 NOI \$45,051	.09 cap rate indicated
6	Turkeys Sale price \$925,000	Closed 9/07 NOI \$86,855	.094 cap rate indicated
7	Turkeys Sale price \$935,000 - \$240,000 (excess land) = \$695,000	Closed 11/06 NOI \$50,536	.073 cap rate indicated
8	Turkeys Sale price \$790,500	Closed 6/06 NOI \$37,074	.087 cap rate indicated

Yearly Income and Expense Summary

INCOME:

Poultry Income – 50,400 square feet @ \$2.38 per square foot	\$119,950
Primary residence - \$1,000 per month x 12 months	<u>\$12,000</u>
Effective gross income	\$131,952

EXPENSES:

Real estate taxes	\$2,413
Insurance	\$2,000
Replacement reserves	\$13,440
Repairs, maintenance	\$2,500
Utilities, LP and litter	\$28,800
Labor	<u>\$30,000</u>
Total expenses	\$79,153

Yearly Income and Expense Summary (continued)

EFFECTIVE GROSS INCOME	\$131,952
LESS EXPENSES	<u>(\$79,153)</u>
NET OPERATING INCOME	\$52,799
DIVIDED BY CAPITALIZATION RATE OF:	7.5%
	\$703,987
EXCESS LAND	
10 acres x \$8,000 per acre	<u>\$80,000</u>
	\$783,987
VALUE INDICATED BY THE INCOME APPROACH:	<u>\$783,987</u>
ROUNDED	<u>\$784,000</u>

NOTE:

The subject consists of 25 acres of which approximately 15 acres are required to support the current poultry operation. The remaining acreage (10 acres) is considered excess land and has been valued utilizing the market approach.

Value Reconciliation

Reconciliation is the culminating of ideas or indications to arrive at a final value. The different indications of value derived in this appraisal report follow:

Subject value indicated by cost approach	\$824,000
Subject value indicated by income approach	\$784,000
Subject value indicated by sales comparison approach	\$800,000

Each approach is a comparative analysis of the data in the marketplace, which is significant and applicable to the use of the respective approach. The accuracy and reliability of each approach is dependent on the quality and quantity of the market data available, the type of property being appraised and the definition of market value.

The first step in the analysis was estimating the value of the subject site as vacant. Land sales were researched throughout the market area, which were representative of the highest and best use of the subject parcel. These sales were reasonably current and parallel the economic environment of the subject. The comparable sales, with the recited adjustments applied, are resultant in a defensible estimate of market value for the site.