Building Rent
What’s a Fair Value?

Ken Bolton
UW-Extension
Center For Dairy Profitability
Arriving at a Fair Rental Value

- For whom?
- Landlord?
- Renter?
- Both?
  - High/Low approach
Arriving at a Fair Rental Value

**Landlord**
- High
  - Out-of-pocket costs, PLUS
  - Annual ownership costs
    - Rate of return on Investment
- Low (Out Of Pocket)
  - Taxes
  - Insurance
  - Repairs?

**Renter**
- High
  - Full ownership cost
- Low
  - Less than
    - Taxes
    - Insurance
    - Repairs
Arriving at a Fair Rental Value

• Full ownership cost
  – Actual costs for
    • Taxes- (1-1.5% of building’s market value)
    • Insurance- (0.5-1.0%) “
    • Repairs- (1.0-1.5%) “
  -PLUS-
    • Capital Recovery Charge (CRC)
      – Depreciation (0-5%)
      – Interest on investment- CD rate
Arriving at a Fair Rental Value

• What’s a Building Worth?
  – Market value
  – Insured value
  – Assessed value
  – Appraised value
  – Replacement cost MINUS depreciation
  – Contributory value
    • Farm value-land value
Real Estate Tax Bill For 2009  
TOWN OF WASHINGTON  
COUNTY OF EAU CLAIRE  
STATE OF WISCONSIN  

<table>
<thead>
<tr>
<th>Ass'd Value</th>
<th>Ass'd Value Improve</th>
<th>Total Ass'd Value</th>
<th>Avg. Assn't Ratio</th>
<th>Est. Fair Mkt. Land</th>
<th>Est. Fair Mkt. Improve</th>
<th>See Reverse, Use Value Assessment</th>
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<td>2008 NET TAX</td>
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Net 2009 County tax reduced by State and Federal credit: 385.24  
Net Property Tax: 5,207.93  
Net 2009 Tax due: 5,693.15  
Net Property tax rate: 0.015504384  

H KENNETH & MARGO G BOLTON  
024-1019-09-000  
2009375512  
Correspondence should refer to tax number,  
See reverse side for important information.
Arriving at a Fair Rental Value

• “Improvements”
  – House- 4 bedroom, finished basement built 1996
  – Shop- 40’ X 60’, 4- season built 2004
  – Pole barn- 40’ X 60’ built 2004
Arriving at a Fair Rental Value

• “Fair” market Value

• Using The Real Estate Tax Bill
  – Assessed value of Improvements - value of improvements not to be rented = value building to be rented
  – $274,700 – ($214,700 house + 50,000 shop) =
    • $10,000 pole barn
  – 40’ X 60” = 2400 ft.² = $4.17/ft.²
Arriving at a Fair Rental Value

• Real Estate Tax Bill, continued
  – $10,000 building value X 2.5% (taxes, insurance, repairs) =
    • $250
  – $10,000 building value X 3% (depreciation) =
    • $300
  – $10,000 building value X 1% (hopeful CD rate) =
    • $100
  – Total ($250 + 300 + 100) =
    • $650/year/ $54.17/month (add value of technology)
    • $250 min. cash costs
  – Bottom line- What the market will bear.
Arriving at a Fair Rental Value

- Negotiation points
  - Can I recapture all depreciation?
  - Can I recapture total return on investment?
  - Would the renter cover repairs?
  - Would the renter check in on me/help me when he uses the building?
  - Would the renter clean my drive of snow?
  - Is the renter a close friend/neighbor?
  - Would I be better off with unused building?
Arriving at a Fair Rental Value

- Consider all approaches to valuation
- Select those make most sense
- Consider “High – Low” values
- Consider local demand
- Consider “people relationship” factors
- Decide whether you really want to rent
- Settle on an agreed on price
- Put agreement in writing!
Arriving at a Fair Rental Value

• Resources
  – Your own knowledge of local conditions
  – Property tax assessment report (Co. Treasurer's Office)
  – NCR-214 “Rental Agreements For Farm Machinery, Equipment and Buildings” [URL]
  – NCR-215 “Farm Buildings or Livestock Facility Lease” [URL]