Fourteen Numbers You Need to Know Before Buying Country Property

1. Acres.
How many acres will the seller convey to you, physically on the ground and legally in his deed? These numbers should be the same, but are often different.

A surveyor can plot the seller's deed description on a topographical map that you can use in the field. The plotting will determine exactly how many acres the seller can convey to you by deed and whether the deed description closes. If the drawn boundary does not close, there's an error in the description. It's not uncommon to find either more or less acreage on the ground than in the deed.

2. Tax-assessed value.
What is the tax-assessed value of the seller's property? This dollar amount is supposed to reflect a reasonably current fair market value of the seller's real estate. It is the number on which the seller's property taxes are calculated. The number is found in the county courthouse where taxes are assessed. Tax-assessed values are updated every few years, but they may not reflect actual current market values, especially in rapidly appreciating markets.

3. Fair market value (FMV).
What is the current fair market value (FMV) of the seller's property as an entirety. You can determine this by hiring an appraiser to do an appraisal for you before you submit an offer. Make sure that your appraiser is approved by the lender that you plan to use, otherwise you might end up paying for two appraisals. A local real-estate broker can perform a competitive market analysis (CMA) of recent sales for you. A CMA is similar to an appraisal done by a licensed appraiser, but not as rigorous. Use the property's FMV in negotiating price with the seller.

An appraisal does not research property for defects in title, acreage and its assets. The appraisal provides you with an appraiser's opinion about the market value of the property in gross terms. It generally does not determine the real market value of timber and minerals.

4. Seller's equity in the property.
How much of his own money does the seller have in the property he's selling?

This includes down payment and closing costs when he purchased it, principal that he's repaid and capital improvements that he's made. It does not include interest that's he's paid on his mortgage, property taxes, insurance, appreciation, depreciation and routine maintenance expenditures. This number gives you a point from which to start projecting what the seller will make from a sale at various prices and various terms. It's a good number for buyers to know when it shows a seller making a lot.

5. Seller's remaining mortgage debt.
Remaining debt is the amount of money that the seller has to pay from the proceeds of the property's sale to free the property from a lender's lien. Subtracting the seller's debt from a purchase price gives you a ballpark idea of what he might pocket before taxes. The seller may need to pay off other debts that are tied to the property, not just a mortgage. He may also have debt with the owner from whom he bought the property.

6. Basis.
This is a tax number. It represents what a seller has "in" the property at the time he sells it to you from a tax perspective. Original basis is the seller's cost of purchase. Over the years, basis is adjusted up or down, according to

what the taxpayer has done with the property. Depreciation subtracts from basis; capital investments add to basis. The lower the seller's basis, the more profit he's likely to make on his sale. Profit is figured by subtracting the seller's adjusted basis from his net sales income.

7. After-tax net income from sale.
This number depends on many seller-related variables—whether the property qualifies as a principal residence; whether the seller has held it for more than one year as a property that qualifies as a capital-gains sale; his tax bracket; his income from other activities; the selling price; and other factors. This number is an estimate of what the seller will have left after all his expenses and taxes from the sale are paid. There are ways for buyers to help sellers increase their after-tax net income, which can help a buyer in negotiations.

8. Current values of the property's severable assets.
A seller's property can be made up of several assets, one or more of which the buyer may consider to bea saleable asset. Severable assets can include an unwanted house or acreage, merchantable timber, minerals or mineral rights and unneeded buildings. The prudent buyer determines the value of each such asset he's planning to sell before making an offer to purchase. Asset sale is often used to help pay for the purchase of rural property.

9. Price of the seller's property compared with prices of similar properties currently on the market.
This is a difference number, that is, the dollars that the seller's property is above, at or below the price of a similar property.

It's helpful in negotiations for a buyer to have a sense of two scales: first, how the seller's asking price matches up against what the buyer determines is the fair market value of the seller's property; and second, how the seller's asking price compares with the asking prices of similar properties. It may be easier to get a seller to come off his price if you can show that his property is overpriced against others on the market than if you can show it is overpriced in terms of its own virtues.

10. The worth of the seller's property to you.
After you've finished all your research into the value of the seller's property, you must decide the right purchase price for you. This number is not the same as what you can afford. The right price is often less than what you can swing. When you believe that $5 is the right price for a hamburger at a particular restaurant, but the menu's price is $9, you are more than likely to order something else or go to another place. Same with country property. Keep this number to yourself.

11. The price you can comfortably afford.
This number will reflect how much cash you have to front (down payment, closing costs) as well as the amount and terms of any financing you arrange. I suggest using more conservative ratios than those that institutional lenders will apply.

12. Time Numbers.
Rural property needs to be evaluated against how long it takes for the owner to get somewhere and for someone—like the local rescue squad--to get to him. Time is the more relevant consideration than distance, because country miles often take longer to travel than suburban miles owing to slower roads. A buyer should consider "times-to" the following as part of his pre-offer scoping: fire station, rescue squad with EMT, on-call doctor, hospital, dentist, job, supermarket, building-supply store, farm-supply store, car dealer for your make, gas station, auto-repair place, library, restaurant, church of your choice, work-out room and dumpster/dump.

13. Local Appreciation Rate.

Assume that you don't improve the property over some period of time, say, five years. A very conservative rate of compounding appreciation would be three percent; five percent is both conservative and reasonable; eight or nine percent will be in many ballparks. At a given point in the future, you can project gross profit and net after-tax income from your sale of the property at various appreciation rates.

14. Liquidity.

If you had to sell the property immediately, what price would you put on it? What price would you need to break even, after all debts and expenses are paid?

When you can resell at a price that at least breaks you even, you can sell quickly and not be hurt. Country property becomes illiquid when it's priced above market—and the seller doesn't budge.