

An Amusing Yet Practical Appraisal Application

What's its Value?

BY DAVID LAYNE, SR/WA

A while ago, I saw one of Gary Larson's "Far Side" cartoons. Larson stopped publishing new ones but the old ones still seem to pop up from time to time. On the remote chance that you haven't heard of him or seen his cartoons, Larson drew pictures of animals, insects, extraterrestrials and an assortment of unconventional characters. The specific cartoon I'm referring to depicts a group of Native American Indians. They are listening to the chief as he holds up a string of beads. The chief says, "To begin, I'd like to show you *this!*" He continues, "... Isn't it a beaut'?" The cartoon's caption finishes with, "New York, 1626: Chief of the Manhattan Indians addresses his tribe for the last time."

I was always taught, as I guess Gary Larson was too, that the sale, of what was to become one of the five boroughs of New York City, was a bad deal for the Manhattanites; but as an appraiser, I wondered if that was, in fact, the case. Was Peter Minuet's \$24 (that's cash equivalent) payment for New Amsterdam such a bad deal for the Manhattanites? As my day was beginning to look memorable in its boredom, I began to think a little more about the value of the country.

Remember, our forebearers purchased a lot of the United States: Manhattan, Louisiana, Alaska, and I suppose a lot more. I began to wonder if it might be possible to figure out, based on sales data, what America's value is today. Anyway, since it seemed a more interesting project than watching "Gilligan's Island" reruns, I decided to do a quick land valuation of the country.

(The Appraisal Foundation and the International Right of Way Association, forgive me.)

So, anyway, I had my first sale.



SALES DATA

Sale No.1**Sale Date:** 1626**Grantor:** Man-a-hat-a Indians**Grantee:** Holland a.k.a The Netherlands (Why do they have two names anyway?)**Property Description:** A 20 +/- square mile "finger-shaped" island between the Hudson and East Rivers. It is approximately 13 miles long with an average width of approximately 1.5 miles. While the topography does vary somewhat, it is generally level.**Sale Price:** \$24 (cash equivalent)**Sale Analysis:** 20 +/- square miles at \$1.20/square mile**Sale No.2****Sale Date:** April 30, 1803**Grantor:** ~~France~~, Oops! Freedom**Grantee:** United States of America**Property Description:** A 909,000 +/- square mile irregular shaped parcel of land. The topography varies greatly (from sea level to over 14,000 feet). While neither the grantor nor the grantee knew the exact boundaries of the sale property, it generally extends from the Gulf of Mexico on the south to just north of the 49° 00' latitude. The eastern boundary is the Mississippi River and the western boundary is the Rocky Mountains.**Inspection Date:** Spring 1804 to fall 1806 by Meriwether Lewis and William Clark.**Sale Conditions:** The grantor may have been under some

duress to sell the property as it was fighting a major European war and needed cash. It is conceivable that had the seller lengthened the exposure time that it may have found another buyer (e.g. Spain).

Sale Price: \$23,213,567.73 (includes \$15 million cash with the balance consisting of payments in settlement of French claims and bond interest.)**Sale Analysis:**

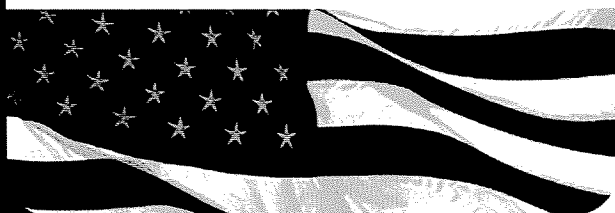
846,550 +/- square miles @ \$27.42/square mile

62,450 +/- square miles @ nominal (Oklahoma)

909,000 +/- square miles @ \$25.54/square mile (overall)

Sale No.3**Sale Date:** 1819**Grantor:** Spain**Grantee:** United States of America**Property Description:** The state of Florida (plus a little bit). A peninsula of land containing 58,664-square miles (54,153 – square miles land and 4,511 – square miles water). The topography is generally level and varies in elevation from sea level to 345' above sea level.**Highest and Best Use:** Varied, primarily recreational and agricultural.**Sale Price:** \$5 million (Based on claim settlements of United States citizens against Spain). The \$5,000,000 represents a payment in financial terms comparable to cash.**Sale Analysis:** 58,664 +/- square miles @ \$85.23/square mile

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Sale No. 4

Sale Date: March 1, 1845

Grantor: Republic of Texas

Grantee: United States of America

Property Description: The state of Texas and portions of the states of Oklahoma, Kansas, Colorado and New Mexico.

Zoning: None, at time of sale. (Still none in many areas.)

Sale Conditions: Originally, the purchaser planned to subdivide a portion of the parcel (Texas) into as many as four states. However, a subdivision plan was never filed nor was other necessary approvals received.

Sale Price: Annexed by Congressional Resolution. There was some discussion, at the time of annexation, as to whether or not to exclude from annexation the area now occupied by a portion of Oklahoma.

Sale Analysis: None

Sale No.5

Date of Sale: June 15, 1846

Grantor: Great Britain

Grantee: United States of America

Property Description: Oregon Territory

Sale Conditions: This transaction was an agreement between Great Britain and the United States to "quiet title." There had been a dispute between the two countries as to the boundary between the United States and what was to become Canada. (Remember "54°40' or fight?")

Sale Price: None

Sale Analysis: None

Sale No.6

Sale Date: March 10, 1849

Grantor: Mexico

Grantee: United States of America

Property Description: Approximately 577,540 square miles including the states of California, Utah, Nevada, and parts of New Mexico, Arizona and Colorado.

Sale Conditions: The grantor may have been under some duress, as it had just lost the Mexican War (I wonder if Mexicans call it the American War?), to the grantee. It is noted that by December 1853 (the date of Sale No. 7) gold production in California alone approximated \$276,500,000.

Sale Price: \$15,000,000

Sale Analysis: 577,540 +/- square miles @ \$25.97/square mile

Sale No.7

Sale Date: December 1853

Grantor: Mexico

Grantee: United States of America

Property Description: The southern most parts of Arizona and New Mexico. The area extends from the Gila River on the north to the Mexico/United States border on the south. The total area is 44,890 +/- square miles.

Sale Conditions: The per square-mile price is considerably higher than the price paid just four years earlier for Sale No. 6. It may be possible, with paired data set analysis, to support either a market trend adjustment or the clichéd "smaller parcels sell for a higher unit value." More probably, as the United States representatives who negotiated Sale No. 6 were authorized to pay \$20,000,000, that the sale price for Sale No. 7 included additional money to correct the earlier inequity.

Sale Price: \$10,000,000

Sale Analysis: 44,890 +/- square miles @ \$222.77/square mile

Sale No.8

Sale Date: March 1867

Grantor: Russia*

Grantee: United States of America

Property Description: The state of Alaska, a 586,412 +/- square mile parcel with a topography varying from sea level to 20,320 feet (that is a varying topography). The area has a heavily indented coastline with innumerable offshore islands.

Highest and Best Use: Heavily debated at the time of sale. Many people considered it folly (ha! ha!) to even have considered purchasing the area. *Harper's Weekly*, a magazine of the time, declared that the only products were "polar bears and icebergs."

Sale Price: \$7,200,000

Sale Analysis: 586,412 +/- square miles @ \$12.28/square mile

* The sale occurred prior to Russia becoming the Union of Soviet Socialist Republics which was prior to the Union of Soviet Socialist Republics becoming Russia.

Sale No.9

Sale Date: August 12, 1898

Grantor: *

Grantee: United States of America

Property Description: The state of Hawaii, a 6,471 +/- square mile area consisting of eight major islands and numerous islets. The topography is varied and, at numerous locations, rugged. **Sale Conditions:** Annexed. While the Hawaiian leader, Queen Liliuokalani, opposed annexation; an American planter (Dole)

and the U. S. Minister to Hawaii knew "what was best for the Hawaiians" and called in the Marines. This was not an arms length transaction as there was an unwilling seller.

Sale Price: None

Sale Analysis: None

So, there it is; the country, or at least most of it, and it did include a series of purchases, annexations, etc.

DATA SELECTION

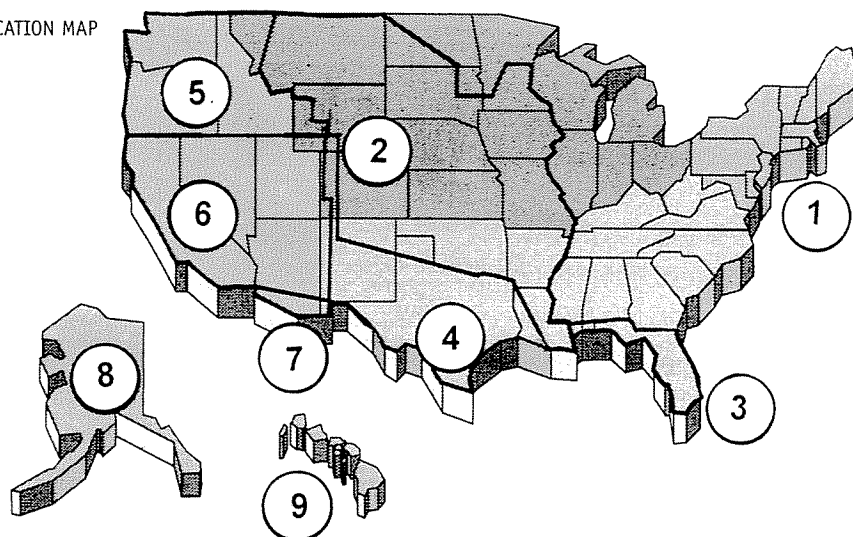
Of the nine transactions, three (Sale No. 4, No. 5 and No. 9) clearly were not market value transactions. Also, Sale No. 1 (Manhattan Island) is excluded from this analysis. While any or all of the sales are questionable comparables to begin with,

a 20-square mile parcel compared to a 3.5 + million square mile tract stretches comparability way too far, even for this exercise. Finally, Sale No. 3 is also considered too small for comparison purposes. Although, in all fairness, I may have to make another inspection of Sale No. 3 next winter.

In the data analysis, Sale No. 6 and No. 7 will be considered together. The two sales are linked in many respects (grantor/grantee relationship, time of sale, location, and even more important, the two sales seem to be linked in terms of total consideration). Plus I need a third sale.

Property Rights: It is difficult to determine what the property rights of each sale conveyed. It appears as if the conveyances were "quit claim" transactions of whatever rights,

SALES LOCATION MAP



DATA ANALYSIS

Item	Subject	Sale No. 2	Sale Nos. 6/7	Sale No. 8
Sale Price		\$23.2 M	\$25 M	\$7.2 M
Price/ Sq. Mile		\$25.54	\$40.17	\$12.28
Property Rights		See Comments	See Comments	See Comments
Adjustment		0	0	0
Financing	Typical	Cash, Claims settlement	Believed typical at time of sale	Believed typical at time of sale
Adjustment		0	0	0
Sale Conditions		See Comments	See Comments	See Comments
Adjustment		0	0	0
Market Conditions	2003	1803	1849-53	1867
Adjustment		+960%	+990%	+975%
Adjusted Sale Price/Sq. Mile		\$245	\$400	\$120
Location	All	Central	West/Southwest	Northwest
Adjustment		0	0	+\$280
Physical Characteristics (Size)	3,618,770 Sq. Miles	909,000 Sq. Miles	622,439 Sq. Miles	586,412 Sq. Miles
Adjustment		0	0	0
Net Adjustment		+\$400	+600	+700
Indicated Value per Sq. Mile		\$625	\$1,000	\$980

title and interests each grantor possessed. There were many claims, both recognized and ignored, by the transaction principals. However, considering the conditions at the time of the transactions and the current state of claims and legal actions outstanding against the various governments, all sales are considered comparable to the subject property in respect to property rights.

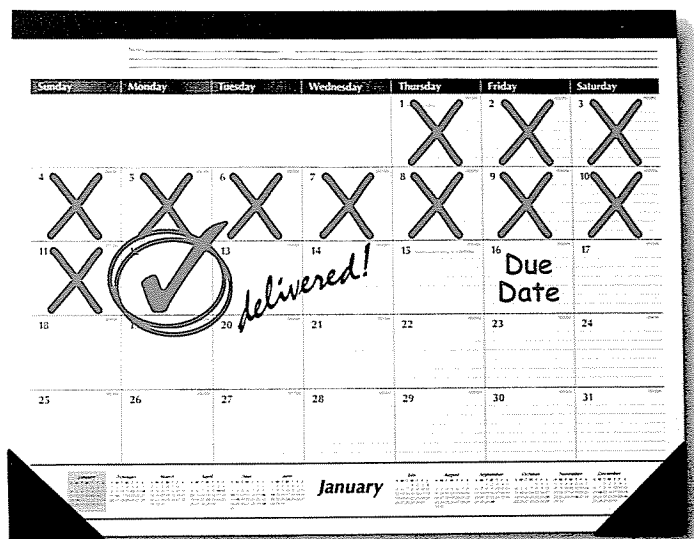
Financing: Sale No. 2: The transaction price included cash, claim settlement and bond interest. However, "rigorously testing the financing conditions against market evidence" failed to indicate an adjustment.

Sale Conditions: Sale No. 2: It is debatable as to how motivated Napoleon was at the time of the Louisiana Purchase sale. True, he may have had larger issues on his mind and also true, he may have been able to realize a higher price from Spain; but the property was exposed for sale in the open market, with a reasonable time to find a purchaser who would buy with knowledge (somewhat) of the uses and purposes to which the property is adaptable. Sale No. 6 and No. 7: The two sales are considered together. This seems appropriate as the transactions, when considered together, represent the terms and conditions of the settlement of the Mexican-United States War.

Market Conditions: This is the major comparison element. The sales range from 136 to 200 years prior to the valuation effective date (2003). While normally the sales data would be considered too remote in time for comparison, the sales are, in fact, the "best available."

Now the question, "How do you determine (if justified) a market trend adjustment?" Several articles on the historic relationship of time and money may help. The first article, described the cost of John Smith's (you remember him, he's usually coupled with Pocahontas) expedition to Virginia. At the time, 1624, (only 2 years prior to Sale No. 1) it cost 12 pounds, six shillings, and three pence sterling to provide a year's supply of tools, food, clothing, etc., for the expedition. The article's author, James B. M. Schick, concluded that a 1624 penny was worth \$1.36 in 1989. Applying the commodity price index (CPI) change from 1989 through 2002 results in the value of a 1624 penny in 2003 at \$1.88.

A second article in *The Economist* discussed consumer price index changes from 1661 (not too far from 1624) in Britain and the consumer price indices



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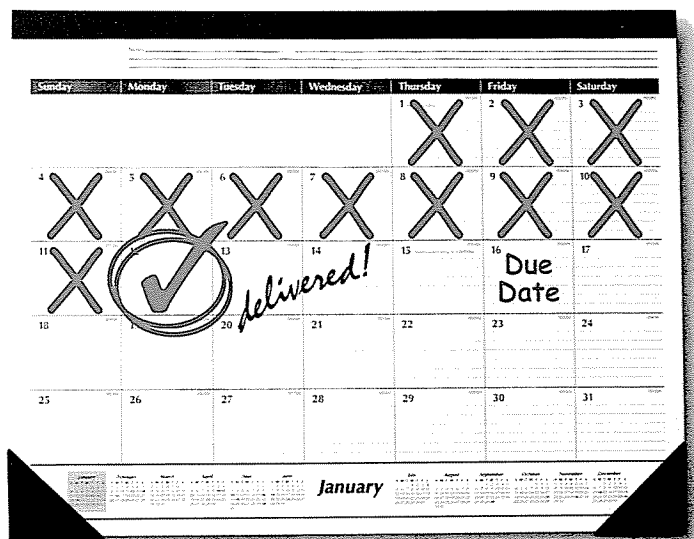
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in Germany and the United States from 1820 to 1992.

In yet another article "How Much is That Worth Today?" published by Economic History Resources, CPI reliability, specifically what data to use, how to do the CPI compilations and the meaning of the results, are discussed. "The 'science of economics' is no more fixed in its wisdom than any other human attempt at understanding the world about us." Nevertheless, it is also fair to say that, in the interim, on our way to understanding the issues even better, the same scholars who debate these matters also use the CPI as it exists to draw the very same kinds of rough comparisons that are possible..." The article goes on to comment specifically on the comparison between CPI and real estate value. It makes the point that while the use of CPI calculations are simple, its reliability is less definite, particularly as a change in CPI is not directly parallel nor equal to a change in real estate values.

Finally, Economic History Resources (www.eh.net/hnit/inflation/inflationsource.php) publishes recreated and actual CPI rates from 1665 through 2001.

Be that as it may, while the commodity price index, as we all know, is not a true measure of real estate market trends, it is helpful as it marks the central tendency in price change in the U.S. economy, it is the best data available, and this whole article is a joke anyway.

Utilizing, primarily, the numbers as presented by EHS for the specific time periods between the transaction dates and the valuation effective date and "support" from the other available data, indicate the following market trend adjustments:

Sale No. 2: + 960 percent. The sale occurred at one of the peak economic periods in the nation's history. As a matter of fact, prices fell significantly at various times subsequent to the sale date (1815-1824, 1828-1833, 1840-1843, 1866-1871, 1873-1878, 1883-1899 and 1930-1933). **Sale No. 6 and No. 7:** + 990 percent. **Sale No. 8:** + 975 percent. In addition to the significant downturns in the period between the sale dates of Sale No. 1 and Sale No. 8, there was a period (1862-1865) and just prior to the transaction date of Sale No. 8 where there was a significant increase (68 percent) in the CPI percentage.

As the reader can see, the change in market trends is not continually upward. Throughout most of U.S. history, the exceptions being World War I, World

War II, and the 1974-1981 period, sustained and significant increases were not in evidence. Overall, the CPI does not indicate significant increases until World War I and, even more significantly, since 1934.

Still, considering the time expanse, and while not showing a consistent change over time, the adjustments are fairly "tight together."

Location: The only location adjustment that seemed relevant was for Sale No. 8 (Alaska). Utilizing paired data set analysis (Sale No. 6 and No. 7 and No. 8) Indicates a location adjustment of +\$280/square mile to Sale No. 8. (Maybe Secretary of State William Seward's detractors had a point.)

Physical Characteristics: While there are differences among the sales in many physical characteristics (topography, water frontage, shape, etc.), no adjustment were made, as the subject property is a combination of all the sales.

The one significant physical characteristic considered was size. As each of the sales is part of the whole, a size adjustment was considered. Unfortunately, the data are limited and a poorly supported adjustment was not possible.

Reconciliation

The three sales develop a range of values from \$625/square mile to \$1,000/square mile. A value of \$1,000/square mile, based on Sale Nos. 6 and 7 and supported by Sale No. 8, is adopted.

Final (almost) Value Opinion

The subject land (from sea to shinning sea plus Alaska and Hawaii) based on the sales comparison approach has a value of: \$3,618,770,000 (3,618,770 square miles @ \$1,000/square mile).

Did you ever have the feeling after doing an appraisal and then looking at the final number that the final number wasn't? Well, that's definitely the case here.

\$3+ billion just doesn't cut it. It's way too low. A few years back, I read an article in Real Estate Review that contained several estimates of the value of the country's real estate (land and improvements). The values ranged from about \$5 trillion to about \$10 trillion. If my gut feeling isn't enough to convince me that I have a problem with the final (almost) value opinion than a land to value ratio of .03 percent (\$3 billion/\$10 trillion) certainly does.

NOW THE WEASEL

I guess I'll just have to take another look at my adjustments; or look for additional sales.❖



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Ph: 713-270-9298
markm@salemiland.com

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