

THE OPINION OF THE COLLEGE OF FELLOWS

Agrichattels: A Glossary and Commentary

**Initiation, Chair Responsibility,
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Preface

Within the appraisal profession, the valuation of agrichattels is a relatively new discipline. In my sixty years of experience with farm management and appraisal, I have found no textbooks or professional journal articles dealing with the appraisal of farm chattels. Knowledge of this specialty comes to me, as to others who deal with the topic, from years of experience using chattels in the operation and management of a farm. Perhaps this Opinion will serve as the beginning of a body of work and as a bibliographic entry related to the topic of agrichattels.

In 1989, while monitoring the Texas A&M four-level farm appraisal course for Jerry Gold, regional director of Farm Credit Services, I realized the need for a written document on the subject of agrichattels. Subsequent to several discussions with Gold, I began to develop the ideas, now collected in the following Opinion, for a basic course in the valuation of farm chattels that could be understood by loan officers and clients of Farm Credit Services. An in-depth course was not necessary because loan officers spend approximately half their time evaluating clients' ability to produce a product, to manage farm operations, to handle finances, and to repay loans. They spend only about 25 percent of their time valuing real property and another 25 percent of their time valuing chattels.

Because loan officers and their clients are not professional appraisers, the best approach for such a course appeared to involve clearly communicating a basic explanation of the nature of farm chattels and the proper language and terminology for discussing them. In addition, although valuation of chattels is done primarily for purposes of collateral, valuation is sometimes necessary for estate purposes or for an owner who wishes to sell. Again, clear communication of basic information to a lay audience is best and most appropriate.

The following Opinion is intended to serve as an aid to anyone who appraises farm chattels. With this information, appraisers should be able to identify farm chattels, to know how to value them, and to know how to write appraisal reports using terminology that clients can easily understand. It is important for appraisers to remember that their reports will be reviewed and used by people who are not professional appraisers. For that reason, reports should be written with as little jargon as possible, in order to communicate clearly with these important business clients and users and to help them arrive at the highest and best use of the chattel asset.

Two examples of the need for clarity and written documentation on the subject of *agrichattels* come to mind. First, some years ago, I interviewed a gems and jewelry appraiser who was then a prospect for admittance to membership in ASA. After reviewing several reports, I told the prospect that I felt it would take another gem appraiser to understand the technical jargon and language used and to interpret it to a client. When the prospect agreed with my assessment, I stated that I found it more useful to write reports with language and terminology that a layperson can grasp, so that my appraisal methodology and reasoning were clearly communicated and did not require an interpreter.

Secondly, as I developed drafts of this Opinion and shared them with colleagues, I was again reminded of the need for agreement on basic information regarding chattels when one of the readers told me that the word "chattel" refers only to an inanimate asset and, therefore, animals are not chattels. In fact, the word *chattel* is the 14th-century origin of the word *cattle*.

Reference sources for this Opinion include various dictionaries (primarily Webster's), ASA discipline glossaries, familiarity with the subjects of various farm-related journals and publications, and the 1995 edition of the Uniform Standards of Professional Appraisal Practice (USPAP), published by the Appraisal Standards Board of the Appraisal Foundation.

With the revolutionary change in agriculture over the past one hundred years comes the need for the appraisal profession to clarify the definitions and contexts of the term *chattel* and the specific agricultural term *agrichattel*. Agriculture, more commonly known as farming, has increasingly become what is now called "agribusiness." As this change occurs, appraisers must carefully consider the definition, as well as the context, for various types of property, so that those with the appropriate background, in the appropriate specialty, may effectively estimate the value of the property in question.

In keeping with the mandate and published Opinions of the American Society of Appraisers College of Fellows, this Opinion concerns the definition of terms employed by appraisers when valuing *agrichattels*. The commentary following the definitions is directed toward the importance of *defining the problem*, the key component of the appraisal process. Preliminary surveys, data research and analysis, value conclusion, and report writing must all be predicated on accurate, in-depth understanding and definition of the appraisal problem. The terminology in this Opinion concerns appraisals dealing with agricultural asset analysis and attempts to clarify the concept of *agrichattels*, related to changes in the way agriculture has been and is now practiced.

The term *chattel* is defined by Webster's dictionary as "an item of tangible movable or immovable property except real estate, freehold, and things (as buildings) connected with real property." When used in two related agricultural contexts, the term *chattel* has similar but different definitions. In the context of agribusiness, *agrichattel* has a particular definition, and value is usually estimated by machinery and equipment appraisers and by real property appraisers. In the context of farming, *agrichattel* has a different definition, which farm appraisers are more likely to use in estimating value.

Glossary

Agribusiness

An individual, partnership, group of persons, or created corporation whose sole purpose is to process livestock and commodities into a merchantable product for use by farmers and other related agricultural enterprises, or for other uses, all for profit.

Agricultural Property

Property that is zoned for and suitable for the raising of livestock and the production of commodities.

Chattel

An item of personal, movable property. In agriculture, this consists of machinery and equipment, livestock and crops and/or commodities.

Commodity

A transportable item of commerce or trade, especially a mining or agricultural product.

Crop

Agricultural produce that can be harvested.

Define

(1) To state the specific meaning of (a word). (2) To describe the nature of: explain. (3) To delineate. (4) To specify.

Equipment

Fixed assets other than real estate, such as office or automotive equipment, that are separate from other assets under the category of fixtures because of their physical attachment to a realty.

Farmer

An individual, partnership, group of persons, or created corporation whose sole purpose is to actively produce and raise livestock and crops/commodities for the purpose of human use or profit.

Fixture

Personal property that loses its identity as such by its association with real property and becomes accessory to the real estate and part and parcel of it.

Inventory

A list of the stock on hand of a business, usually containing the name of each item, stock number, cost and quantity of the item on hand.

Livestock

Farm animals, such as cattle, raised for human use or profit.

Machine

A system or device built to use energy in performing a task.

Personal Property

Personal property is generally movable—that is, items not permanently affixed to and part of the real estate. *Webster's Ninth New Collegiate Dictionary* defines personal property as "property other than real property consisting of things temporary or movable: chattels." The *Uniform Standards of Professional Appraisal Practice* (Appraisal Standards Board of the Appraisal Foundation, 1995 edition) classifies personal property as "identifiable portable and tangible objects which

are considered by the general public as being 'personal,' e.g., furnishings, artwork, antiques, gems and jewelry, collectibles, machinery and equipment; all property that is not classified as real estate." Thus, personal property is not endowed with the rights of real property ownership. Other examples of personal property are furniture, livestock, farm machinery, and crops and/or commodities.

Plant

(1) In real estate, a very general term that may include land, buildings, and machinery. It is usually of an industrial nature. (2) To place (e.g., seeds or seedlings) in the ground for growing. (3) An organism typically having cellulose cell walls, manufacturing its own food by photosynthesis, and being incapable of locomotion.

Process

An orderly or established series of steps or operations toward a desired result or product.

Product

Something produced by nature or by human or mechanical effort.

Real Estate

Physical land and appurtenances, including structures affixed thereto. Real estate is immobile and tangible. Legally defined, real estate includes land and all things that are a natural part of it, plus all things that are attached to it by people.

Real Property

Real property includes the interests, benefits and "bundle of rights" inherent in the ownership of physical real estate. This "bundle of rights," representing the sum of aspects of real property, is legally categorized as an "intangible."

Terminology

The technical vocabulary of a specific trade, profession, science, or art.

Wasting Asset

An asset, such as an oil field or a natural gas deposit, that is consumed or diminished in value due to use or lapse of time. Tax entities consider trees in an orchard and grapevines in a vineyard to be wasting assets.

General Commentary

The changes in agriculture over the preceding century have created two primary areas: farming and agribusiness. Until the 1970s, *farming* was the primary component of agriculture, involving ownership and cultivation of property, livestock, and seedstock for personal use as human or animal food, for breeding stock, or for sale for profit. The crops raised were used to feed the farm family, for livestock "fuel," or to fatten livestock for food or for sale. In general, farming *produces* livestock and crops for human use or profit.

Agribusiness developed within agriculture when more land could be cultivated and more livestock could be produced than were needed for the personal consumption of individual farm producers. Crops and livestock began to be marketed for cash, which bought machinery and fuel to produce more crops and livestock for sale. In general, agribusiness *acquires* farm livestock, crops, and agricultural

commodities as raw materials and uses them as inventory in processing marketable products for profit. *Farming* may become *agribusiness* when livestock, crops, and commodities are placed in storage or inventory for processing into marketable products for profit. An agribusiness may produce livestock or crops, but it will do so primarily for research purposes.

Examples of agribusiness include feedlots that purchase farm commodities and feed out livestock—such as cattle, hogs, sheep, and poultry—for meat or develop livestock for breeding; large packing plants that process fattened livestock into food products, such as packaged meat and eggs; and processing plants for making food grains into commodities, such as cereals, ethanol, and protein for animal feed. Grain terminals and country elevators are agribusinesses that buy grains for sale to other agribusinesses or to export to other countries. In each business, farm products are considered as inventory for the purposes of their special consumer end-products. Agribusinesses generally consist of physical plants and/or operations and, as a rule, are appraised by machinery and equipment appraisers and by real property appraisers, not by farm appraisers.

Commentary

To be valued as agrichattels, items must be considered in the proper context. In this commentary, farm chattels will be addressed first. Farm chattels are known as “agrichattels” and comprise machinery and equipment, livestock, and crops/commodities, all of which are tangible items of personal property that are movable and portable.

Farm machinery and equipment includes tractors, heavy equipment to move dirt, tillage equipment, harvesting machines, trucks, planters, seeders, and other types of equipment that are used to prepare/cultivate land, to plant crops, to destroy weeds, to maintain and harvest crops, and to care for and transport livestock and/or crops to storage or to market. Such machinery is not permanently affixed to the real estate, although it may be temporarily affixed for purposes of stability and usability.

Livestock includes many kinds of animals, such as cattle, hogs, sheep, poultry, horses, fish, and exotic animals. Breeding stock and their offspring are also considered livestock and may be used to produce commodities and services for humans, such as food, recreation, animals for work or pleasure or additional breeding stock, or for inventory in large confinement feedyards. Livestock remain chattels until they are sold on the market or placed in a confinement area for processing. At this point, livestock become inventory for agribusinesses, whether for a plant, corporation, or individual farmer. If farmers keep livestock for processing into marketable products, the farm operation becomes an agribusiness.

Crops and/or commodities are seeds or plants placed in the ground that grow, mature, and ripen, to be harvested as agricultural produce or products. Crops/commodities are not attached to the land on a permanent basis but are planted for the period of time required for the gestation and ripening to be completed, generally five to eight months. Crops consist of fruit or nuts from orchards and the product of growing and ripening crops, such as corn, cotton, soybeans, wheat, or vegetables. Trees in a forest can be considered a crop, although years may pass before they are mature enough to be harvested for such uses as shade trees, Christmas

trees, lumber, or pulpwood for paper. Since orchard trees (fruit or nuts), like grapevines in a vineyard, are affixed to the land on a permanent basis and follow a cycle of planting, growing, and maturing, they are considered by tax entities as a *wasting asset*, much as a building or structure that is sold with the land. All crops are considered to be chattels until marketed or used as inventory.

Some confusion exists in the definitions of *crops* and *commodities* for the purposes of determining and valuing agrichattels. The Opinion presented here is that crops must be categorized in the same manner as other chattels. Are they movable and portable? What is the intention of their attachment to the land? To whom do the crops belong? If planted by a tenant, the fee owner of the land has only a lien on the chattels and is not vested with the right to sell them with the land. (Exceptions to this general rule occur when the owner who planted the crop wants to sell the crop with the land; where the value of the crop sold is figured in addition to the land value; or when crops are sold in the field to facilitate the liquidation of an estate. Harvested crops are considered to be chattels until marketed or stored as inventory of an agribusiness for processing into consumer goods or products.)

Modern agribusinesses are large plants, with the machinery, equipment, and fixtures required to produce a particular product. When used in this context, the machinery and equipment are considered part of the real estate on which the plant is located and are not classified as chattels. Some agribusiness machinery and equipment may be affixed to the real estate in the plant and considered fixtures or used on the land to accomplish the purpose of the plant's operation. As a rule, this machinery and equipment is sold with the plant when a sale occurs. For example, an agribusiness may be a plant that produces fertilizer and chemicals used by farmers or others to produce crops and commodities or to control weeds. The machinery and equipment used for the plant's production of fertilizer may or may not be sold with the business, but they are not considered agrichattels. In a similar vein, the machinery and equipment used by a country elevator in its business of buying and selling crops or commodities are not considered agrichattels.

Summary

In summary, the Opinion of the College of Fellows is that the same rules or attitudes used for personal property and real property must be used when appraising agrichattels. When considering whether some agricultural assets qualify as agrichattels, determine the context in order to arrive at accurate responses to the following questions:

1. Is it movable or portable?
2. Who owns it: landlord or tenant?
3. Typically, does it sell with the real estate?
4. If affixed to the real estate, what was the intent when affixing it to the real estate?
5. If affixed to the real estate, what was the manner, method, or means of attachment?