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## Standards and Procedure for Classification and Valuation of Land for Assessment Purposes, by H. H. Lord, S. W. Voeler and L. F. Gieseke

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STANDARDS AND PROCEDURE FOR CLASSIFICATION AND VALUATION OF LAND FOR ASSESSMENT PURPOSES, By H. H. Lord, S. W. Voeler, and L. F. Gieseke. Montana State College Agricultural Experiment Station, Bozeman, Montana. 1942. 28 p.

Realizing the need for equitable assessments of agricultural land more in harmony with the uses and comparative productivity of the land involved, the authors of this publication have attempted to define standards of gradation within certain use-classes and determine the relative values of those grades.

Three steps are outlined. First, it is necessary to determine for what use the land is best suited. This is done by estimating the value of the land for all probable uses. As a general rule, land should

be classified according to the use which would give the highest net return to the land. The anticipated annual gross return may then be computed by multiplying the expected price of the various products by the estimated productivity. The land may then be classified according to that use which results in the highest net return to the land.

The second step is to grade the land within each classification of use according to relative productivity. For example, "first grade" wheat land might yield from twenty-two to twenty-four bushels per acre, and "second grade" from sixteen to twenty-two bushels, etc. The information concerning uses and productivity can be secured from yield histories, soil inspection surveys, and farmers' opinions. Records of yields are now kept by several agencies, of which the Agricultural Adjustment Administration is probably the most important. At present, where this system of gradation is used, there may be two grades in one county and ten in another, both having the same type of land. The grades within each classification should be uniform throughout the state, and each assessment grade should be fairly limited in scope so that the spread in value within each grade will not be excessive.

Lack of local detail in the data based upon yield histories and soil inspection surveys leads to classification within certain areas according to the predominating grade, with the result that certain small areas of better or poorer land are not shown separately. Therefore, a third step is necessitated—determination of per acre values of different grades within each classification.

Grazing land presents a difficult problem. If any of the conventional measures of productivity are used, there will be no uniformity because the grazing periods in different parts of the state differ according to climatic conditions. Therefore, to secure uniformity, the grades should be expressed in terms of animal unit months of grazing per acre. A convenient classification of animal units is the following: one animal unit is one cow, or one horse, or five sheep, etc. An animal unit month is the amount of forage needed to support one animal unit for one month.

After the land has been classified according to its use and graded upon its productivity, the next step in the assessment procedure is the establishment of a schedule of values per acre of each grade of land. When this schedule has been agreed upon, the assessed value of each ownership tract can then be computed by multiplying the scheduled values per acre by the acreage of each corresponding grade of land in the tract.

The standard of value used is almost universally the "market value" of the land. However, the difficulties of this measure are manifold. Real estate sales do not take place in a freely competitive market and during such years as those from 1920 to 1934, "willing buyers, willing sellers, and an active market" were rather the exception than the rule.

Therefore, a better method of computing land values would appear to be the capitalization method. Productivity data are converted into land values by the capitalization of the net income available to

sustain the investment in land. Capitalization consists simply in finding the valuation upon which land is capable of paying the going rate of interest. Thus, if five per cent is the going rate of interest, land which will, on an average, produce a permanent net income of \$1 per acre annually over all operating costs is worth \$20 since \$1 is five per cent interest on \$20.

Although the grades of land should be comparable physically among the counties, dollar and cent productivity values must be computed for each county and area. This is necessary because of local differences in gross income and operating costs, and consequent differences in net income to be capitalized into land values.

Among the estimated operating expenditures to be deducted from the estimated gross income are family living expenses, depreciation of improvements, taxes and interest. Gross income and operating costs, and hence, income to be capitalized into land values will of course be influenced by the type of farming practiced, the size and shape of fields, adaptability of certain types of machinery, local costs of materials, distance to markets, the kind of roads to be traversed, etc. Since determination of the effect of the location of the land on value does not lend itself to exact mathematical computation, local opinion must be relied upon in establishing differential values arising from location.

It is suggested that the comprehensive basis for such a system of classification and valuation would have many uses in addition to tax assessments. It could be used by local groups for land use planning and by farm operators and lending agencies as a guide to best use and reasonable investment value of land. This system, coupled with a plan for frequent reassessment at least every four years, would seem more equitable than the arbitrary classifications now in use in a majority of the states, including Indiana (see Ind. Acts 1919, c. 59, §142, p. 276).