

Comparable Mineral Properties – A Widening of Meaning for Appraisals

Trevor R. Ellis, CPG, CMA, CGA, FAusIMM

Mineral Property Appraiser
Ellis International Services, Inc.
Denver, Colorado, USA
www.minevaluation.com



SME-CMA-IIMA Annual Meetings, Denver, 15-18 February 2015

“Comparable Sales” or “Comps”

Are such mineral property transactions available?

- Simple sales of discrete mineral properties not common.
- Minerals appraisal standards and guidelines don't use the term *comparable sale*:
 - VALMIN 2005 uses *sale*; not *comparable*
 - CIMVal 2003 uses *comparable transaction*
 - IVS GN 14 uses *transaction*; not *comparable*
 - IIMA's Best Practice Guidelines use *transaction* (*comparables* once in isolation)
 - IMVAL Framework Guidelines draft uses *transaction*; not *comparable*

Comparable?

- The word *comparable* remains a target for reviewers of our appraisals, and for opposing lawyers.
- Total adjustments from transacted properties to the Subject are usually huge versus for conventional real estate.



Subject: Brookfield Quarry Property, CT, 2004

- Crushed stone: granitic gneiss, dolomitic marble – meets all CT DOT specs
- Only operating quarry in USA's 2nd wealthiest county
- Grandfathered – no other quarries allowed
- Annual sales expectation buyer: 644k tons



Transaction 1: New Milford Quarry Property, CT, 2006

- Manufactured sand, crushed stone: friable dolomite
- Annual sales expectation buyer: 900k tons
- Company bought, \$37 million
- Reserve equivalent price per ton adjustment: +680%



Transaction 4: Naugatuck Quarry Property, CT, 2003

- Crushed stone: Granite, mostly CT DOT spec
- Annual sales expectation buyer: 250k-400k tons
- Real property \$1.225 million
- Reserve equivalent price per ton adjustment: +3,300%



Subject: Las Brisas Gold Property, Venezuela, 2006

- Undeveloped Reserves: 10m oz Au, 1.3Bn lb Cu



Transaction 1: Youga, Burkina Faso, W. Africa, 2003

- Undeveloped Reserves + Resources: 1.6m oz Au
- Corporation bought, 90% property interest, \$5.5m
- Reserve equivalent price per oz Au adjustment: +660%



Transaction 9: Choco 10, Venezuela, 2006

- Developed Reserves + Resources: 3.4m oz Au
- Corporation bought, 95% property interest, \$353m
- Reserve equivalent price per oz Au adjustment: -48%

The Appraisal Foundation

Appraisal Practices Board (APB)

Valuation Advisory #4, Aug 2013

Identifying Comparable Properties

- Applicable to real property interests in real estate, including mineral interests:
 - The Appendix of suggested further reading contains two minerals appraisal papers
 - USA courts usually expect mineral property appraisals to abide by USPAP real property appraisal standards

Advisory Findings

- The principle of substitution:
 - The foundation of comparability
 - A rational buyer will not pay more than the cost of an acceptable substitute
- The appraiser estimates what a buyer would have paid for the subject property given the observed sale or asking price for the comparable property

Advisory Findings

- Many courts recognize that in the context of the appraisal of properties:
 - *similar* does not mean *identical*
 - *similar* means having a resemblance, though each possesses various points of difference.

Advisory Findings - Comparable Suitability

- APB approves the cautious use of listings and pending sales:
 - Helpful for establishing upper probable value limit
 - Helpful guidance during rapidly changing market
- The appraiser cannot control the quality or suitability of available sales.

Advisory Findings - Comparable Suitability

- The appraiser weighs the importance of property factors to market participants, e.g.:
 - Location
 - Economic
 - Legal
 - Physical

Advisory Findings - Comparable Suitability

- Fannie Mae:
 - A property is comparable if the market considers it a competitive substitute.
 - Analysis and adjustments must be based on market data for the locations of the Subject and competing properties.
 - “Adjustments must be made without regard for the percentage or amount of the dollar adjustments.”

Advisory Findings - Comparable Suitability

- “The key is for the appraiser to adequately explain and support the rationale for using the comparable properties selected ...”
- Where property differences are significant, inclusion of additional transactions may help support your opinion.

Advisory Findings - Highest and Best Use

- “A necessary consideration for determining if a property is comparable is whether the highest and best use of the subject property and the competing property is the same.”

Advisory Findings - Market Area

- “The geographic area used for selecting comparable properties depends on the property type”:
 - “For a large industrial property, regional or national market areas may be relevant since this is the *market* in which buyers of similar properties effectively compete.”
 - The market area for the buyer/seller market could be international, say, for a hotel, while the user market for the hotel could be within the country.”
- The user market sets the basis of Highest and Best Use.

Appendix II:

Suggested Further Reading

Listed Minerals Appraisal Papers:

- Ellis, Trevor R. “Sales Comparison Valuation of Development and Operating Stage Mineral Properties.” *Mining Engineering*, April 2011
– (Available on *onemine.org*)
- Lipscomb, MAI, John H. “Coal Valuation: The Sales Comparison Approach.” *The Appraisal Journal*, April 1986: 225-32.

Author's Concluding Thoughts for Minerals Appraisers

- The APB Advisory provides a much wider meaning of the term “*comparable properties*” than expected.
 - Maybe many of our transactions are *comparables*
- However, this author still advises avoiding the use of the word *comparable* when appraising minerals estate interests (unless you enjoy defending yourself).
 - Also educate lawyers working with you to do the same.
 - Substitute *transaction for sale* and *comparison for comparable*.