“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

- 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%
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:

  – (Available on onemine.org)

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.