Recognizing the Economic Impact of Proper Siting in the Land Acquisition Process

The Casual Interplay of Stakeholders, Value and Constructability

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Concerns From the Landowner's Perspective

Determining a Tract's Value

All land has a value, but determining the precise and current nature of this value requires a thorough and somewhat complicated process. Understanding that value, not only as it applies to your project economics, but as it applies to other potential stakeholder concerns and to the current landowner is essential to the successful completion of the land acquisition process.

- Tax Value: The value that the federal, state, and local taxing jurisdictions ascribe to the tract of land, inclusive of permitted exemptions. This, plus any required maintenance costs, will be the minimum expenditure required of the landowner to keep the tract in question.
- Base Value: the theoretical minimum value a tract of land would have if no use were currently found to exist on the land.
- Current Operational Value: a dynamic representation of the current use, benefit, and value being produced and derived by the landowner by the operations now in place on the tract of land. This value will evolve as operations change and progress over time.
- Theoretical Maximum Value: the highest possible value that can be generated by a tract of land when either (a) the tract is conveyed to an apex revenue generator, or (b) multiple revenue-generating operations are allowed to coexist simultaneously.

Understanding a Landowner's Reality

With uncontested, large-scale federal government land grant programs a thing of the past, a party who wishes to construct a new project needs to successfully negotiate with the current owner or rights holder for the ability to do so.

The value assigned to the land in question will underpin not only the land acquisition process but will follow through and affect the economics of the project throughout its life cycle.

The chart below, utilizing the contrived "Green Acre," details the possible options available to a rural landowner seeking to fully utilize their tract's potential and derive the maximum revenue from either its operations or sale.

"Green Acre"
A Hypothetical 500 Acre Tract of Land in Rural America

Type of Revenue Producing Operation	Theoretical Assumptions	Requires the Landowner to Vacate or Alienate the Property	Potential Revenue to be Generated by Such Operations	Input Cost Required from Landowner	Theoretical Profit Remaining for Landowner (exclusive of taxes)
Tax Value Assigned	Annual State Tax w/Ag. Exempt. Per acre valuation of $3,000 per acre, leading to a tract book value of $1,500,000.	N/A	N/A	$2,500	N/A
Agricultural Value with Federal Subsidy Support	A 50/50 crop rotation between corn and soybeans	No	$493,250	$270,500	$222,750
Agricultural Lease	Rate of $200 per irrigated acre rental	Yes	$100,000	$0	$100,000
Grazing Lease w/o Hay Combined	Rate of $10 per acre of improved permanent pasture range	No	$5,000	$0	$5,000
Oil Production Value	Normal field spacing rules of one well per 40 acres and traditional set-backs. Texas average of 16 BPD production at the now current spot price of $71 for WTI Crude at a 25% royalty.	No	$4,975,680	$0	$1,243,920
Cattle Ranch (Cow/Calf Operation)	One head of cattle per eight acres.	No	$29,000	$20,000	$9,000
Hunting Lease	$12 per acre lease rate for Deer Season. $20 per acre lease rate for Dove Season. $16 per acre lease rate for waterfowl hunting.	No	$24,000	$0	$24,000
Sale to Large-Scale Homebuilder	Builder's "Rule of Thirds" applies and the purchase price will not exceed one third of the land costs as charged to the home buyer.	Yes	$35,000,000	$0	$35,000,000
Sale to Large-Scale Logistics or Warehousing Operations	The tract fits all other requirements such as distance to population center and growth corridor, access to roads and rail, etc. Purchase price of $200,000 per acre for a 100 acre out sale to be developed as a regional warehouse.	Yes	$20,000,000	$0	$20,000,000

Concerns From the Developer's Perspective

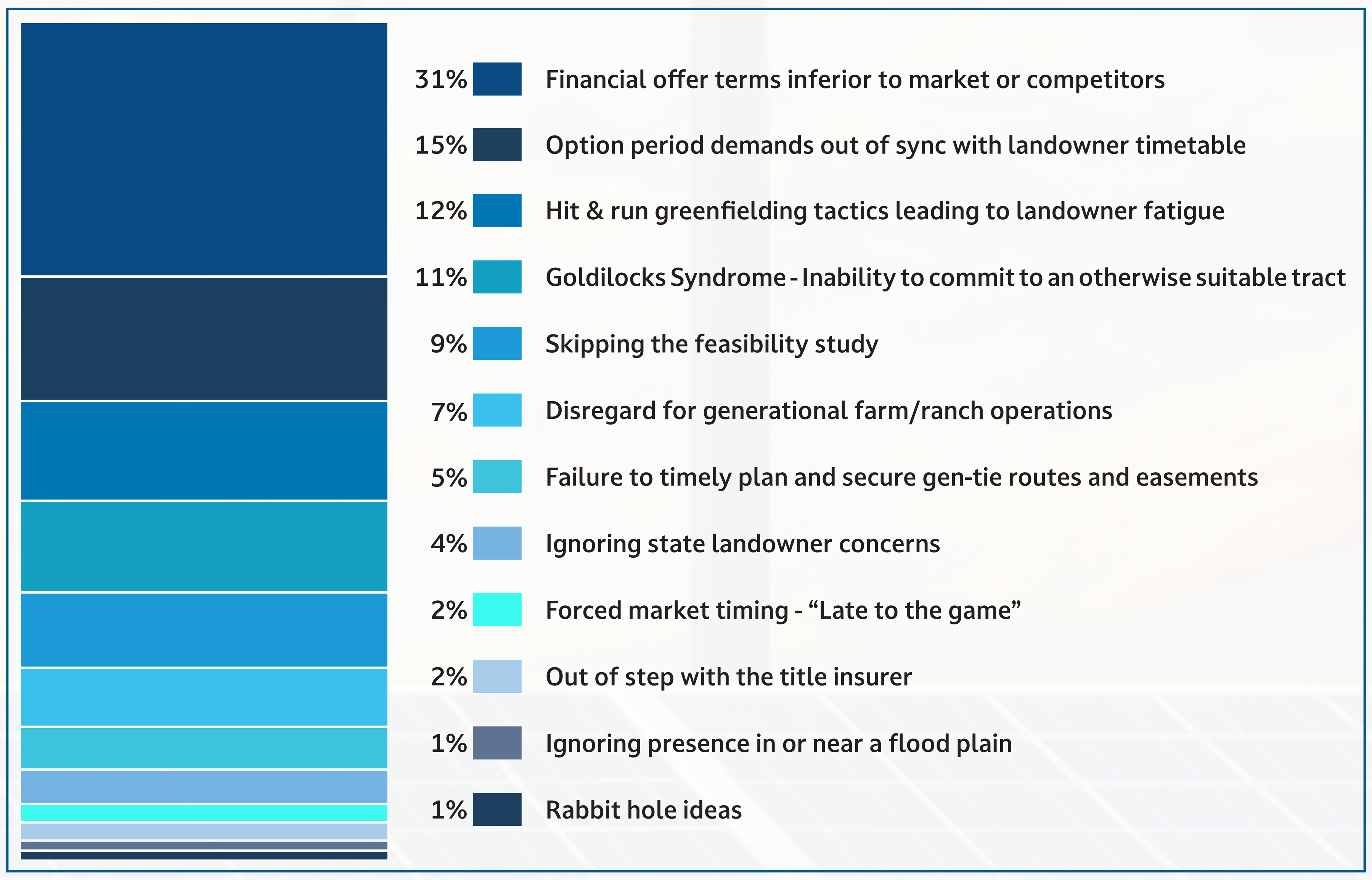
Developer's Must Align Their Plans and Operations Efficiently and Pragmatically or Risk Terminal Damage to the Project

The industry is operating in a hyper competitive acquisition landscape now and for the foreseeable future. A developer must not only compete with other renewable project developers but must also compete for acreage with actors from entirely different industries and, in many instances, with the needs and operations of the current landowner as well.

The bar chart below demonstrates that in most instances the financial terms on offer will be the paramount concern of the landowner. This only makes sense – once the landowner has made the conscious decision either to allow your operations to encroach upon their own or to alienate and vacate their property entirely, the remaining negotiations necessarily become focused on finding the most lucrative outcome for themselves, their business, or their family.

While the chart highlights the preeminence of financial outcome to the landowner it also demonstrates several of the self-inflicted failure points displayed by developers when negotiating a potential acquisition. This chart was created by utilizing project data collected over a five-year period from approximately 275 projects, spread throughout twenty-six (26) states, and managed for forty-four (44) different domestic and international clients. While the majority of those 275 projects were in fact successful, this chart utilizes the data learned from the unsuccessful projects, phases, and initiatives to draw lessons and greater understanding. Fully two-thirds of the failure points highlighted in the bar graph were caused not by an inability or unwillingness to compete financially with the market or other competitors, but by behaviors or practices either partially or fully controllable by the developer.

These failures inflict a real cost to the developer. Even if Cap-Ex funds were not allocated to a failed prospect the internal and vendor time, effort, and resources do have a calculable value which needs to be recognized and appreciated. Further, the loss of other potential or better opportunities, while more difficult to account for on a ledger, can be substantial both in nature and outcome.



At the Outset, Endless Choice – But This Soon Narrows

While the landowner is tied to a single, specific tract, the developer is able to consider a seemingly limitless selection of tracts on which to site their project. This affords the developer both advantages and disadvantages. Not having to settle for or contort a project to fit requirements tied to a particular landowner or tract should allow a developer the opportunity to site their project according to the engineering and economic directives set in place by management and investors. However, an inability to quickly and efficiently narrow down a large number of tracts to a more manageable group of high graded priority targets risks miring the project in endless delays as the list of candidate tracts grows while simultaneously driving the attendant costs well beyond initial budgeted estimates. In the end, the two best options available to the developer are:

Be the Standout – Be Superior: A developer can choose to go it alone and to negotiate for the full suite of rights attached to a tract to be held and enjoyed by themselves. To accomplish this successfully the developer must fully research both the tract and the current landowner, develop a nuanced understanding of their situation and needs, respond to the needs accordingly and thoughtfully, and then offer financial terms competitive enough to dissuade the landowner from looking elsewhere.

Cooperate and "Stack Enterprises": Often, the developer of a renewable energy generation or storage project only needs a portion of the rights and access afforded by a tract of land. Whether a developer acts as part of a formal consortium of companies operating in different industries or merely tailors their behavior, actions, and contracts to allow or possibly even encourage simultaneous yet separate development, such accommodation can lead to significantly reduced acquisition costs and a greater likelihood of landowner consent. Both of these outcomes inherently lead to a more efficient and successful project.