Land Compensation Methodology:

Application for Temporary Road Use and Short-Term Right-of-way Agreements

Ministry of Forests and Range (MoFR) real estate staff has reviewed the current compensation process in consultation with an independent real estate analyst, and in the context of the marketplace, the policies of other jurisdictions and relevant legal decisions. Based on this analysis, the following compensation framework has been developed for use by MoFR staff when estimating fair market value for temporary road use and short-term right-of-way agreements.

The value of a road is based on the market value of the underlying land plus the depreciated value of any improvements. Market value is the value of a parcel of land traded at "arm's length" between a willing buyer and a willing seller. A estimate of market value for a property's total area is best supported by BC Assessment Authority data, local real estate sales for comparable whole properties (often gathered by a realtor), or an independent real estate appraisal. (A comparable property is a property that is comparable in size, terrain, highest and best use, and vicinity to the whole subject parcel, not just the area required for road.)

The value of the underlying land is based on a pro rata unit value (UV), usually a value per hectare. The value of the depreciated improvements should be provided by a local MoFR/BCTS engineering officer, or may also be provided by an independent engineering consultant that specializes in the construction of forestry roads.

Typically, licensees acquire access across private land by way of a temporary road use agreement. At present there are no limits or guidelines in place to determine the amount of compensation paid by industry to private landowners for road use. Any costs associated with acquiring and constructing an industrial haul road may be credited against the licensee's stumpage payments.

It is generally understood that temporary or short-term agreements are in place for no longer than 15 years. In cases where multiple users require access beyond 15 years, MoFR real estate staff may recommend the acquisition of a permanent Crown interest in the land required for road.

The following Steps detail the calculations used by MoFR real estate staff to determine fee payments for the temporary use of roads.

Step 1: Land Value Calculation:

First, determine the unit value of the whole property:

$$\frac{\textit{Market Value}}{\textit{Total Land Area}} = UV$$

Then, to determine the final value for Step 1:

UV X Land area required for road = Market Value of underlying land

Step 2: Right-of-way or road use agreement – annual fee calculation:

Using the final value from Step 1, an annual fee for use of the road is derived using one of the following calculations:

a) If land is developed for a road where no road previously existed:

(Step 1 X 8%) 100% = Annual Fee

or

***b)* If an existing road is used:**

First obtain a value for the depreciated road improvements (DRI) from the local MoFR/BCTS engineering staff, in order to complete the calculation:

i) Exclusive use

(Step 1 X 8%) 50% + (DRI X 8%) = Annual Fee

ii) Non-Exclusive use

(Step 1 X 8%) 50% + (DRI X 8%) 50% = Annual Fee

Notes:

- ***i) A "yield rate" of 8% has been recommended by independent appraisal sources as an acceptable market rate for vacant industrial land.***
- ***ii) "Annual Fee" does not include charges for road or structure maintenance.***

Step 3: Expressing the fee in terms of a "per m^3" rate

a) $\frac{\textit{Total Timber Volume}}{\textit{No. of yrs in Agreement}}$ ***= Timber Volume/yr***

b) $\frac{\textit{Annual Fee}}{\textit{Timber Volume/yr}}$ ***= Market value rent expressed in price/m3***

Note: The value determined in this step is only an expression of value and may be subject to variation if the volume of timber varies or if the term of the agreement is amended. The actual annual fee for road use will remain at the value calculated in Step 2.

Example:

Access is required across a 50ha parcel of private land to harvest and haul 125,000m^3 of timber from adjacent Crown Land. The best access makes use of an *existing* 2km private road on the subject property.

The parties agree that the 50ha parcel is to be valued at $275,000 and that the depreciated road improvements (DRI) are to be valued at $75,000. The 2km road is 20m wide, for a total road area of 4ha.

The temporary road agreement is for non-exclusive use and for a term of 6 years.

Step 1:

First, the Value/ha (UV): $\frac{\$275,000}{50ha}$ **=$5,500/ha**

Then, the Value of land underlying the road: **4ha X $5,500.00 = $22,000**

Step 2:

Annual fee for land only: **($22,000 X 8%) 50% = $ 880**
(land underlying existing road)

Annual fee for road improvements (DRI): **($75,000 X 8%) 50%= $3,000**
(does not include road maintenance fees or charges)

Total annual fee (land + DRI): **$3,880**

Step 3:

Total Annual fee (Step 2) expressed as a "per m^3" rate:

a) $\frac{125,000\ m^3}{6\ yrs} = 20,833m^3/yr$

b) $\frac{\$880 + \$3,000}{20,833m^3/yr} = \$\ 0.186/m^3$

For more information, please contact

Bill Clifford
Senior Advisor, Real Estate Operations
Ministry of Forests and Range
Phone: (250) 387- 8650
Email: Bill.Clifford@gov.bc.ca

Jeff Sheldrake
Real Estate Project Manager
Ministry of Forests and Range
Phone: (250) 387- 8646
Email: Jeff.Sheldrake@gov.bc.ca