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Laure Latruffe, Yann Desjeux, Geoffroy Enjolras, Philippe Jeanneaux

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parlons graphiques

Laure Latruffe, Yann Desjeux, Geoffroy Enjolras and Philippe Jeanneaux

Methods for Farm Valuation

Les méthodes d'évaluation des exploitations agricoles

Methoden zur Bewertung von landwirtschaftlichen Betrieben

Valuation of a farm at current market value is a crucial part of the process of farm transfer, be it between family members through inheritance or on the open market between buyers and sellers. This article explains the methods available to and used by professionals in France to value farms, and presents results of an application of the methods on bookkeeping data for French representative commercial farms.

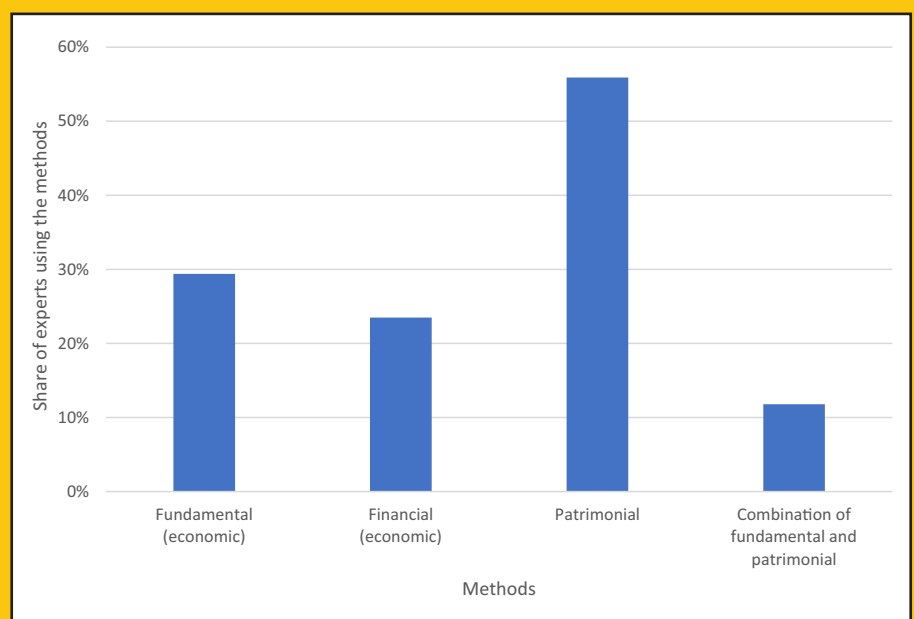
The literature is rich on business valuation methods but less so in the farming context. Some assets are often very specific (farm buildings, livestock, agricultural land) and the activities of farms are by nature diverse and risky, making it difficult to standardise their valuation. There are two broad categories of methods. Economic methods are based on cash flows and profitability generated by the assets and include the **fundamental** and **financial methods**. The fundamental (or discounted cash-flows or long-term returns or capitalisation) method consists of valuing the farm as an industrial project that will generate cash flows in the future,

over a chosen time horizon, for example the duration of a long-term rental agreement (nine years in France). The farm value is thus the sum of the future net cash flows discounted at an appropriate rate. The financial (or profitability) method is based on the estimation of the farm investors' potential remuneration, which can be approximated by the farm net profit (farm income from which the farm manager's labour

remuneration has been subtracted).

The second category of methods relies on the separately-valued assets mainly with the **patrimonial method** (or liquidation and accounting valuation method). Each tangible asset is estimated separately, with the current market value or with the book value of assets available in the balance sheet. While the fundamental method

Figure 1: Use of valuation methods by the surveyed experts



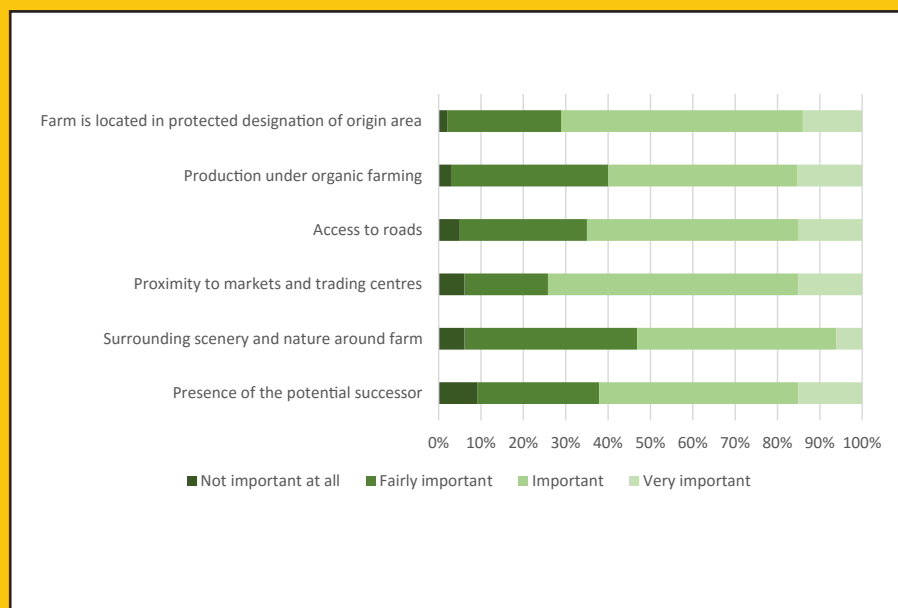
Source: Adapted from Enjolras *et al.* (2023).

is generally preferred by buyers (that is to say, future farmers) and banks, sellers favour the patrimonial method as it generates high values. In practice both sets of methods are often used in combination.

In 2021 an online survey was conducted of 67 land experts and farm accountants in France who regularly estimate farm values for farmers (both sellers or buyers) (Enjolras *et al.*, 2023). As shown in Figure 1, the highest share of experts (56 per cent) used the patrimonial method, although the fundamental and financial methods together account for a comparable share of experts (53 per cent). The survey also highlighted the difficult conciliation of perspectives between sellers and buyers and the need to consider intangible factors, as seen in Figure 2.

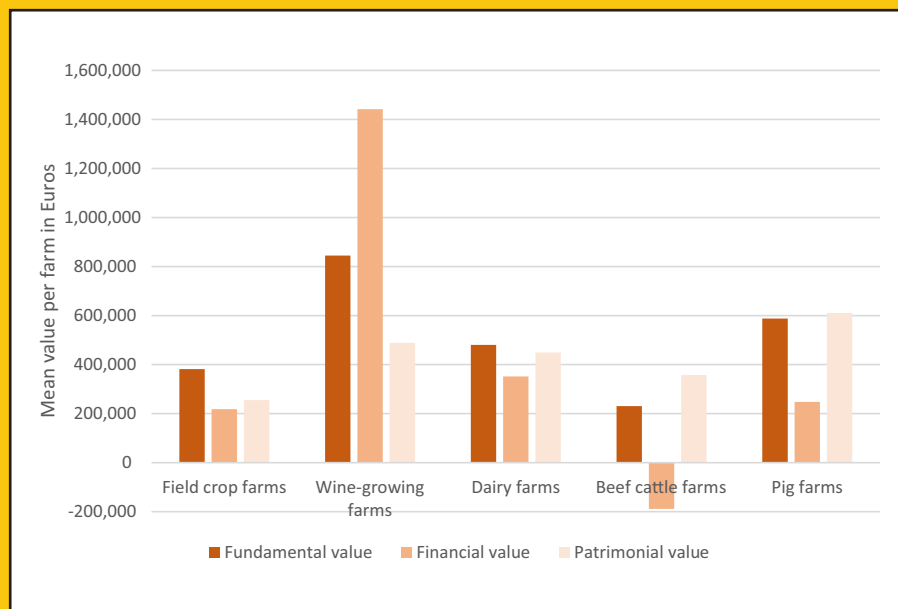
The different methods were applied to the 2017 and 2018 French Farm Accountancy Data Network (FADN) bookkeeping data (Jeanneaux *et al.*, 2022). Figure 3 shows that wine-growing farms have the highest values on average. Pig and beef cattle farms have high average patrimonial values, reflecting their high capital intensity. However, beef cattle farms have the lowest average values calculated with fundamental and financial methods, suggesting less favourable market conditions for these farms. Further research is needed to empirically assess the drivers of values, and in particular the part of the value that is due to intangible assets.

Figure 2: Surveyed experts' opinion on the importance of non-tangible aspects in farm value



Source: Adapted from Enjolras *et al.* (2023).

Figure 3: Mean values per farm (Euros) in the 2018 French FADN sample



Source: Adapted from Jeanneaux *et al.* (2022).

Further Reading

- FADN: https://agriculture.ec.europa.eu/data-and-analysis/farm-structures-and-economics/fadn_en
- Jeanneaux, P., Desjeux, Y., Enjolras, G. and Latruffe, L. (2022). Farm valuation: A comparison of methods for French farms. *Agribusiness: an International Journal*, 38(4): 786–809.
- Enjolras, G., Desjeux, Y., Jeanneaux, P. and Latruffe, L. (2023). Déterminer la valeur des exploitations agricoles : Une enquête sur les pratiques en France (Determining the value of farms: A survey of practices in France). *Economie Rurale*, 384: 93–108.

Laure Latruffe and Yann Desjeux, INRAE, Bordeaux School of Economics, Univ. Bordeaux, Pessac, France.

Emails: laure.latruffe@inrae.fr; yann.desjeux@inrae.fr

Geoffroy Enjolras, Univ. Grenoble Alpes, Grenoble INP, CERAG, Grenoble, France.

Email: geoffroy.enjolras@grenoble-iae.fr

Philippe Jeanneaux, VetAgro Sup, Territoires, Univ. of Clermont Auvergne Lempdes, France.

Email: philippe.jeanneaux@vetagro-sup.fr