GROWERTALKS

Features

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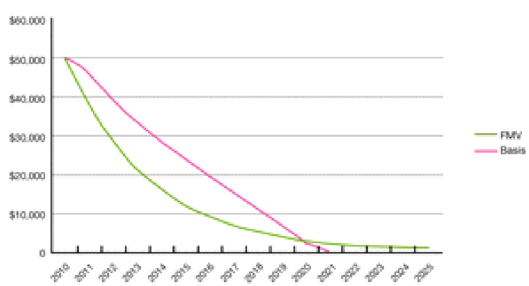
Dealing with Depreciation

Tyler Matteson

You might know what it costs to buy one, to run one, to repair one and maybe how much a used one costs, but what is your greenhouse really worth? The answer depends on how you are going to use it.

Joe Grower wants to build another greenhouse. It's going to cost $500,000 with site work, heating and all the extras. He's asked his lender to finance all of it over a 7-year term. An appraiser stops by to have a look at the property and Joe gets a chance to ask him, "What's the new house going to add to the property value?" The appraiser replies, "Almost nothing."

Joe doesn't understand how something that costs so much could be worth so little. He's done his budgets and projections that tell him that it will pay for it self in five years, even with the extra labor and overhead added in. He knows exactly what the productive value of the greenhouse is, since he's the one who knows how to make money with it.



For most growers, understanding productive value is innate—it's not something they need a budget or a calculator to understand. Exceptional growers do, in fact, pencil out costs and revenues to prove their instinctive sense of profitability. But a greenhouse is more valuable to the grower who built it than it is to anyone else. He or she is the only one who can decide if putting up more hoops or another glass house is the right move, and how the customized growing area translates to the bottom line.

Fit your needs

Perceiving a greenhouse as an asset is less intuitive. Greenhouses may seem like just another farm building, but they age, require maintenance, and wear out just as any other growing tool. Like a truck or a tractor, better technology comes along and you realize that the greenhouse that you just finished paying off has lost a lot of its value. For that same money today you could buy a better greenhouse that fits your current needs.

When assets decline in their value due to normal wear and tear, it's usually referred to as "real depreciation," "physical depreciation," "devaluation" or "revaluation" to differentiate it from "tax depreciation." I prefer "revaluation" because some assets are worth more in fair market value terms than they were last year. But that's rarely the case with a greenhouse structure, which depreciates quickly. Greenhouses are like a new car—on the showroom floor you pay full price, but drive it once around the block and it's worth a lot less because it's a used car.

Henry Huntington of Pleasant View Gardens in Loudon, New Hampshire, says that the decision to build isn't easy. In the last five years, his company has doubled its greenhouse space to about 500,000 sq. ft. at a second location. Pleasant View has transitioned from Quonset huts they constructed 20 years ago to open-roof, gutter-connect ranges with all the options today.

Henry describes his decision process as a combination of budgeting, good records and intuition. He identifies not only what the immediate need is, but where his company's growth will be in three to five years to avoid building every year. Henry says, "You've got to build the best greenhouse for the product you're growing right now for it to be the greatest value to your operation."

He identified that he'd like to see a house pay for itself in five or seven years, though a useful life of 15 or 20 years for that same structure isn't out of the question. By the time those original Quonset huts were removed, Huntington understood that, "they owed me nothing."

Calculating the day when the greenhouse has paid for itself isn't as simple as adding the income that you'd receive from extra growing space, mostly because of the additional operating costs. Pleasant View keeps track of their productivity on both a time and square-foot basis to understand their own business and the appropriate resources to tackle additional capital projects.

Used greenhouses

Now Joe Grower wants to sell his old greenhouse to make room for the new one. He asks the appraiser what it's worth. The appraiser responds as Joe expected him to: "How much is somebody willing to pay for it?" Joe doesn't really know, but he's gotten sufficient use of it that he counts it as paid for and figures the old skeleton could have a few more years left. But how much is it worth to a buyer who has to disassemble, move and reassemble it?

Pre-owned greenhouses don't get sold very often, so there isn't a lot of market data to rely on. Often it's a short sale, bankruptcy, a grower's early retirement or the sale of an older greenhouse that is approaching the end of its useful life. This makes getting a good price for the greenhouse less of a priority than just getting rid of it at some return. The market value of these greenhouses may in fact be negative due to the cost of tearing it down, particularly if there are other more profitable uses of the underlying land.

Daniel Lynch, senior appraiser at Farm Credit East, comments that sales of used greenhouses are few and far between, "The Fair Market Value of a greenhouse is really a tough thing to pin down. My colleagues and I are working with scattered sales data; greenhouses don't get sold very often. But we've used the limited greenhouse sales information to develop a plausible depreciation model for use in valuing greenhouses.

"[The sales data] indicate that there is a fairly steep depreciation (devaluation) curve in the early years of a greenhouse life," Daniel continues. "This depreciation curve slows down and becomes less steep as the age of the greenhouse approaches the end of its useful life and may even reach a minimum value that will continue to follow the scrap value of the structure. Many times it's not that the structure becomes less useful, it's that new technologies have come along that render the older greenhouse less competitive. But we're still talking about a 20 to 25 year asset."

Daniel also noted that the same greenhouse isn't worth the same amount to two different growers because of the build-out involved. "Greenhouses aren't built on speculation—they're customized to needs of the individual growers," he says. "What one grower needs doesn't translate to another grower's operation."

Tax depreciation and basis

To the IRS, your greenhouse is a formula, just like everything else you own. For most greenhouses used as a single purpose agricultural structure, the IRS will allow depreciation of the building costs over a 10-year period. However, if you put a cash register in your greenhouse, or maybe you use it for the seasonal storage of your antique car collection, that makes it a general purpose building and therefore considered a 20-year property.

The IRS allows several different depreciation methods that apply to greenhouses, the most common of which is MACRS, which is used for the group of assets that have an IRS-defined life of up 15 years. MACRS (Modified Accelerated Cost Recovery System) and its cousin ACRS (Accelerated Cost Recovery System) allow for additional depreciation in the first few years of service. Knowing how fast you plan to recover the cost of the structure through depreciation should be part of your profitability plan when you build a greenhouse.

While your greenhouse will really never be worth nothing (it could always be sold for scrap), the IRS allows you to write off 100% of the book value of the asset. A greenhouse is a strange hybrid that may look like a building, but for tax purposes it's a fixture and for valuation purposes it's more like a tool—so it is unlikely that the worth of your greenhouse in fair market value or in tax basis will ever be the same number. **GT**

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