

# Cemetery Management

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## Cemetery Appraisal: ART OR SCIENCE?

ALSO IN THIS ISSUE:  
NETWORK: Profile of a Combination



# What Is Your Cemetery/ Funeral Home Really Worth?

## A practical guide to a realistic appraisal

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**L**arry Anspach, CCE, is an industry leader who in somewhat more than a decade has built an impressive record in a variety of entrepreneurial and management areas, particularly in marketing and public relations. At present, Anspach is the president of American Cemetery/Mortuary Consultants in Chicago, a firm specializing in cemetery and mortuary appraisal, brokerage and consulting services. He is the former executive vice president and chief operating officer of Cedar Park Cemetery Association and vice president and general manager of Cedar Park Funeral Home in Chicago. Currently, Anspach is a member of the board of directors of ACA and a former chairman of its Advertising and Public Relations Committee. He has moderated or addressed numerous ACA workshops, and has served as a speaker or panel member in ACA seminars, conferences and conventions through the years. Anspach served as chairman of the Graduate School of ACA University at Memphis State University in July 1989. Readers desiring further information on cemetery appraisal may contact Anspach at 848 West Eastman Street, Suite 205, Chicago, Illinois 60622, or call 1-800-888-8602.



settlement purposes you need to know the value of the business;

- you just received divorce papers in the mail and you need to evaluate the worth of your business;

- given today's economic climate, your bank calls requesting an appraisal to justify the loan/mortgage they are holding;

- you wish to borrow or refinance, thus the bank requires appraisal;

- you wish to convert from a not-for-profit to a for-profit corporation, and

- despite the federal deficit, the government decides to build or widen a highway through the middle of your cemetery and they want to condemn your land. (It seems the individual who was taking aerial photos saw all this open space and thought this would save the government a lot of money and hassle. Usually it is the opposite.)

Whether the cemetery is for-profit or not-for-profit, large or small, one or another of the above circumstances cannot be avoided over the long term, and sooner or later you will be in the position of needing a professional, independent appraisal.

An appraisal can be beneficial in categorizing the value of assets and liabilities and in defining needs for future financial planning. It does so by indicating profitable or unprofitable trends in the various items sold, pinpointing the remaining inventory of such items, as well as defining the probable remaining useful life of the cemetery. The information in an appraisal can be most helpful to the present owners and management.

Unfortunately, most people hire a local real estate appraiser who, more times than not, doesn't know how to appraise a cemetery/funeral home. An effective appraisal can be expected to lead to favorable negotiations and settlement, thus avoiding expensive and often unpredictable outcomes that can occur when an inaccurate appraisal is disputed.

Keep in mind that the valuation of an appraisal of your business does not necessarily mean that your cemetery/funeral home is worth that figure. Remember that the fair market value of any business can fluctuate, depending on what someone is willing to pay for it under prevailing economic conditions at the time of sale.

Many individuals feel that appraisals are "made to order." In other words, if you need a low or high appraisal, this is something that can be done. This is not true. Appraisals of the cemetery/funeral home should be based on the "income" and/or "asset" approach to establish a fair and consistent basis.

Most real estate appraisers use a "market" approach or the "cost" or "physical approach" rather than the

**T**here are many reasons why an appraisal or valuation of your cemetery/funeral home becomes necessary. To name a few:

- you want to sell your business and wish to know what it is worth;
- you want to acquire a cemetery or funeral home and need to know if the asking price is fair;
- you have inherited your family's cemetery/funeral home, and for estate



income or economic approach. This practice applied to a cemetery in any kind of a condemnation appraisal could be quite detrimental. The market approach commonly uses per-acreage prices of real estate sold near the property and believed to be similar in makeup. As those of us in the cemetery business already know, the land value of undeveloped or even improved real estate is but a fraction of the value of salable and plotted cemetery acreage. It has been our experience that no two cemeteries or funeral homes appraised can be expected to be identical. Likewise, the physical or cost approach is best suited to the appraisal of manufacturing plants and buildings having a specific life, and does not reflect cemetery sales representing the sale of burial rights, rather than the actual conveyance of land and buildings.

The Mt. Hope and St. Agnes cases in New York State have followed the income and economic formulas, and there are other precedents in the courts for this procedure. The state of Maryland by statute regulates its tax assessment valuation of cemeteries by the income approach.

An appraisal is not an exact science, and one of the controversies that always arises in a contested appraisal is the capitalization rate that is used by the appraiser. The higher the capitalization rate the lower the value and vice versa. The capitalization rate is the rate used to capitalize income on income-producing land. It reflects the relationship between one year's net income and the total value of the cemetery. Some factors in determining the proper capitalization rate are:

- the degree of risk for the business;
- probable liquidity of the business, and
- prevailing market conditions.

Cemetery appraisers are influenced by the stability of this particular type of business, the conservative policies governing it (as compared to other businesses) and the long term nature of the business. Adding the so-called conglomerates, limited partnerships

and cemetery/mortuary combinations to the market has made the combinations more liquid in recent years.

Whether you know it or not, these factors have helped increase the value of your properties. Likewise, states such as Michigan have hurt themselves with laws prohibiting combinations by decreasing the value of cemeteries and funeral homes.

Our firm is brokering two cemeteries, both excellent business opportunities, in a state that does not permit cemetery/funeral homes. Because of that restriction most conglomerates are disinterested in the properties. This law clearly has hurt the value of these cemeteries, although pending legislation may change the law in this state. This is only one of many important reasons for supporting ACA and your state associations in legislative matters.

Despite the federal deficit, it seems highway building is alive and well, if condemnation appraisals are any indication. To that end, I would like to offer suggestions which may help prevent a portion of your cemetery from being condemned someday. Make it a point to talk to the people in your local planning department. Frequently, it is this department that makes recommendations to road planners.

Cemeteries have been known to make burials in sections of land close to highways and roadways. If done, this practice should be limited to certain infant burials, the interment of indigents, or other isolated persons without direct family connections that might result in multiple family plots that might someday complicate matters. The point is that these areas should be the first plotted areas, whether or not they are completely developed.

It is desirable to have a master plan for the development of the entire cemetery, including the practicality of constructing a funeral home on the best available perimeter site, with up-to-date revisions. Leave no buffer areas between cemetery land and state, county, or city roads around the cemetery except for landscaping.

If the state makes you an offer, even if it seems reasonable, you

should still get an independent appraisal. The cost of an appraisal is inexpensive compared to what you could receive in a condemnation case. I know of cemeteries that have let state, county or city agencies install sewers on cemetery property, receiving nothing in return. On the other hand, we recently assisted a cemetery in obtaining \$167,000 for the loss of a small strip of land that resulted only in the sacrifice of four grave spaces.

One thing we always hear from clients is that the potential for sales in their cemetery or funeral home is great, therefore, the appraisal should reflect that fact, the result being a high valuation. Remember, an appraisal is based on historical and present values, not the potential for sales in the future.

Our firm performed an appraisal for a small five-acre cemetery that resulted in a valuation of approximately \$40,000. One of the partners wished to buy the other partner out and was dissatisfied with that figure, so he hired a local real estate appraiser who valued the same cemetery for \$250,000. Why the difference? First, the local real estate appraiser admitted he had never appraised a cemetery. However, to his credit, he did quite a bit of research and realized that the proper way to appraise a cemetery is based on the income approach. Secondly, since this particular cemetery had shown no profits for the last five years, the local real estate appraiser decided he would project that the cemetery would sell 104 graves a year over the life of the cemetery. This would result in a profit that then could be capitalized to arrive at a valuation. Perhaps, if it were an empty plot of ground with no history, it would be reasonable to do this. However, the cemetery had only been averaging 11 lots sold per year over the last five years.

The statistical period we like to use is five years, although, depending on the situation, that is not always feasible. The appraisal may be for a new owner; for example, one who may have only three years available on which to base an appraisal.



Typically, what do we need to complete a cemetery/funeral home appraisal?

- Acreage breakdown between developed and undeveloped land.
- Inventory of number of grave spaces, lawn crypts, and mausoleum crypts remaining for sale and the current selling price of same.
- Total number of cemetery/funeral home items (graves, memorials, caskets, etc.) sold each year.
- Insured values of buildings, features, and equipment.
- Complete financial statements for five years, if available.
- Average size of individual grave space.
- Current price list for all services and merchandise offered for sale.
- Demographic information.
- Area competition among other cemeteries and funeral homes.
- Endowment care trusts (perpetual care), merchandise trusts, funeral trusts, and preconstruction trusts totals.
- Zoning information.
- Environmental issues such as asbestos, underground storage tanks, and wetland areas.
- Annual number of interments, entombments, funeral cases.
- General information about cemetery/funeral home history, organizational structure, etc.

The above is not all-inclusive and the detail required by an appraiser may not always cover all of the items; however, sometimes the appraisal covers more. Therefore, the importance of good record-keeping and bookkeeping is essential. It is important that the appraiser act independently in his findings. The information cited above is used to accomplish the following tasks:

- Determine the remaining economic life of the cemetery.
- Determine the projected annual income of the cemetery/funeral home. This is the amount of net income that the cemetery/funeral home is expected to earn, on average, each year throughout its economic life.
- Select the proper capitalization rate.

• Apply the Inwood coefficient to capitalize the annual profit over the remaining economic life of the cemetery to arrive at the valuation. The Inwood coefficient represents the present value of a series of periodic installments discounted at a specific interest rate. A table of coefficients published by William Inwood is a widely accepted source for obtaining the income factor.

• An analysis of the endowment care trust, merchandise trusts, etc., to insure that they are properly funded.

The principal factors that account for different results in an appraisal on a direct basis are:

- Volume sold.
- Profitability of items sold.
- Yield of sections.
- Prices charged.
- Remaining life of the cemetery.
- The difference in assets and liabilities.

• Any pending litigation that can have a direct result on the value of your cemetery/funeral home.

On an indirect basis, such factors as the size, nature, and expected growth of the area market, area competition, the indebtedness, prestige and heritage, and condition of the property, are all very important. Some of the factors resulting in a high or low valuation that you may not have considered are:

• The cemetery/funeral home that maintains a high ratio of reliable accounts receivable will yield a higher valuation than the combination that has low accounts receivable and/or high delinquent accounts receivable.

• Because the death care business is conducted primarily on an installment basis, not on a cash basis, the cemetery/funeral home that collects and services its own installment sales, with finance charges, will have a higher valuation; while the combination that sells its "paper," with the bank collecting the interest, will have a lower valuation.

• A large endowment care fund with no funding deficiencies results in a higher valuation, while a small endowment care fund with liabilities in funding will lower the valuation.

Let me give another example of the importance of an appraisal. Recently our firm was contracted for an appraisal by an individual who was purchasing a cemetery. A selling price already had been established between buyer and owner; thus, the only reason for an appraisal was simply to justify the selling price. The appraisal resulted in a valuation of \$600,000 less than the agreed upon price. Conversely, we have performed appraisals that placed higher values on properties than the asking price. Another cemetery appraisal resulted in a valuation of about \$300,000 because the cemetery had over \$900,000 in unfunded liabilities. If the cemetery was properly funded it would have been worth over \$1 million.

The final appraisal will usually consist of:

- a letter summarizing the finding;
- table of contents;
- qualifications of the appraiser;
- analysis of the data;
- statistics and information about the cemetery/funeral home;
- determination of the annual profit factor;
- valuation, and
- appendices that usually consist of maps, demographics, pictures of the property and sales literature.

Here comes the sales pitch! In the event you should require an appraisal, it is recommended that you use the services of a recognized appraiser of cemeteries and funeral homes. Should the appraisal be contested for any reason, you will then have a knowledgeable independent party available to help substantiate the finding.

Review your operations now so your business will appear in the best light. When the time comes and you need an independent appraisal, you will be in a better position to increase the value of your business. Do unto yourselves that which you preach to your customers every day: "Get your house in order." □

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*Editor's note: Cemetery Appraisal—Art or Science? Next month's feature by Art Yerty.*