

The International Appraiser



Latest Appraisal in Bakken

Saturday, December 20, 2014

This appraisal assignment was of a proposed 35-acre business park in the Bakken area in North Dakota in one of the most active counties for drilling. The owner planned to build a hotel on this site, but wished to sell off 25 acres to other users. Having a hotel on site would be a good draw for a restaurant, for instance, or perhaps offices serving as regional headquarters for an oil or oil service company.

The city with jurisdiction over this site had granted a permit to build a 2-story hotel with 290,000 square feet of floor area with the belief that it would be a 110-room family-oriented hotel. The developer plans to build a 3-story, 400-room hotel. Like many community governments in the Bakken area, the city was rather unsophisticated, not realizing that 290,000 square feet could fit many more than 110 hotel rooms. Nevertheless, the city expressed a desire for a hotel that catered to families whereas the owner/developer is known as a developer of “man camps” – lodging for single oil workers – with small rooms appropriate for single occupants, not families.



Example of hotel operated as man camp by Target Logistics in Stanley, ND

The city's prejudice against "man camps" and oil worker lodging is becoming common among community governments in the Bakken area. Williams County, generally considered as the locus of the North Dakota shale oil boom, with Williston as its county seat, has issued a moratorium on new man camps and RV parks, as has McKenzie County, with Watford City as its county seat. There is a shared perception that man camps demand extra law enforcement resources, as so many single, bored, lonely, uneducated men in their 20s and 30s increase the local crime rate in such categories as public drunkenness, disorderly conduct, assault and sexual assault. They are paid well, though, averaging about \$32 per hour, with many taking advantage of double shifts and earning 6 figures, so theft and robbery is less of a problem.



Temporary worker housing that is needed but unwanted by many local governments

The Bakken area is known for shortages of real estate in certain categories, particularly housing and lodging, but one property type in abundance is raw land. Early successes with Bakken-area business parks have led to a proliferation of "me-too" business parks, often having not yet procured the permits or water necessary for development, listed for sale at inflated prices. The subject property seemed to be in this category.

Another complicating factor is the recent drop in the price of oil, which closed at \$57 per barrel on December 19th. It is estimated that 60% of Bakken's shale oil wells are unprofitable at below \$60 per barrel because of the expense of fracking technology. The cost to develop a new well, furthermore, is estimated to be as high as \$85 per barrel. The number of drilling rigs in North Dakota is now 181, 16% below the peak of the shale oil boom.

The few commercial land sales which could be found were of single-user sites of half an acre or less, whereas there is a proliferation of large business parks with unsold lots. In this instance, I had to create a discounted cash flow model with an extended absorption period.