



## APPLIED EXPERIENCE EXAMINATION – AACI [SAMPLE]

This exam is a test of the application of the First Principles of Value and the Key Competencies acquired by a Candidate during their work experience. A full copy of the description of the First Principles is included as the addenda to this exam paper (starting on page 5). The two Key Competencies that are also being examined are Critical Thinking and Communication. A description of these competencies is included in the addenda to this exam.

Time: 3 Hours

Date:

This examination consists of two sections:

Part A - Case Study	40 %
Part B - Short Answer	60 %
	-----
	100 %

This examination consists of twelve (12) pages. Please check to ensure you have a complete examination.

Answer **one** (1) case study and **three** (3) short answer questions in the booklet provided.

No outside materials are allowed other than a hand-held, cordless, silent calculator that is NOT alphanumeric and programmable.

**THIS EXAMINATION IS THE PROPERTY OF THE  
APPRAISAL INSTITUTE OF CANADA.**

**NO PART OF THIS EXAMINATION IS TO BE REMOVED  
FROM THIS EXAMINATION ROOM.**

**IF ANY PORTION OF THE EXAMINATION PAPER IS MISSING  
FROM THE EXAM ENVELOPE,  
THE EXAMINATION WILL NOT BE MARKED.**

## PART A – CASE STUDY (40 MARKS)

*You are required to choose ONE of the following four case studies and answer the questions below.*

Your answer will be graded based on:

- Your application of the “First Principles of Value”: comprehensiveness and completeness of your answer.
- Quality of your argument: underlying logic, reasonableness of assumptions.
- Quality of your communication: clarity, how convincing/persuasive.

All of the “First Principles of Value” should be discussed to some degree in your answer, keeping in mind that the depth required on each of the principles will vary with the facts of each case and with the assumptions that you make.

First Principles of Value and marks assigned to each section:

- |   |   |
|---|---|
| <ul style="list-style-type: none"><li>• <b>Problem Identification</b></li><li>• <b>Function/Purpose</b></li><li>• <b>Property Content</b><br/>4 marks</li></ul> | <ul style="list-style-type: none"><li>• <b>Economic Variables</b></li><li>• <b>Research</b><br/>12 marks</li></ul>  |
| <ul style="list-style-type: none"><li>• <b>Property Rights</b></li><li>• <b>Land Use Regulations</b></li><li>• <b>Legal Issues</b><br/>8 marks</li></ul>        | <ul style="list-style-type: none"><li>• <b>Quality of Communication and Argument:</b> logic, soundness of assumptions, composition, coherence, persuasiveness<br/>4 marks</li></ul> |
| <ul style="list-style-type: none"><li>• <b>Highest &amp; Best Use</b><br/>12 marks</li></ul>  |   |

You may make any assumptions necessary in order to answer the case. State these assumptions clearly. For all questions, you can answer as if you are an accredited appraiser and you can assume that you have been awarded the contract/job and are explaining your plan to achieve it (as opposed to bidding on a contract or applying for a job).

## **CASE STUDY ALTERNATIVES: CHOOSE ONE OF THE FOLLOWING.**

### **CASE STUDY A:**

The client is a municipality that owns a 3 km long corridor that was at one time used as a transportation corridor. City Council has been challenged as to why this “valuable” corridor is being unused or not sold off. The City has asked you to value the property.

The facts that are known:

- The 80 foot wide corridor, which is virtually straight, connects with arterial roads at either end.
- Numerous cross streets intersect with the corridor along its length.
- The corridor is immediately adjacent to fully developed residential neighbourhoods.
- The corridor has been used as a linear park for some decades.
- A community group raised funds and erected a war memorial at the approximate mid point of the corridor and carries out annual ceremonies at this site.

Using First Principles as your guide, describe:

- your strategy for assisting the client;
- scope of work that you would suggest; and
- challenges in valuing the corridor with specific reference to potential uses and users, as well as the parties that may be beneficiaries of the corridor value in its current use and potential alternative uses.

As part of your answer, explain what other professionals might be engaged, and what information should be researched in this assignment. Provide specific examples of the data you would look for and consider, and how the data would affect the market value analysis and appraisal advice provided to the client.

\*\*\*\*\*

**Three (3) additional case studies will be provided** – you are required to answer ONE of the three case studies.

## PART B – QUESTIONS ON YOUR WORK EXPERIENCE (60 MARKS)

**For the following questions, you must choose and answer THREE (3) questions. Each question is worth twenty (20) marks.**

For all questions, your answer **MUST address all three** of the following points:

- (a) Describe your specific property or assignment work experience that you are referring to in a manner such that the reader can determine its specific location for verification purposes. Provide the building name and address (if known), or as many details as possible regarding its location, plus a brief (1-2 two sentences) general description of the land and buildings.
- (b) Explain why you believe the situation is suitable for the question being posed – e.g., a challenging assignment dealing with highest and best use, legal issues, land use issues, etc. Ensure it is **YOUR OWN** personal work experience!
- (c) Provide details as to how you met the challenges of this situation. Explain your reasoning process, what you did and why, and outline both successes and failures. If you relied on additional resources, you should describe these. Finally, discuss any remaining issues from your approach.

**QUESTION 1.** Real estate is governed by a combination of local, provincial, and federal legislation, as well as case law. Discuss one situation from your experience where local, provincial, federal, or case law was a key consideration in the assignment; explain the impact, and how you addressed this.

\*\*\*\*\*

Six (6) additional work experience questions will be provided – you are required to answer THREE of the seven questions.

**ADDENDA**  
**KEY COMPETENCIES**  
**AND**  
**FIRST PRINCIPLES OF VALUE**

**KEY COMPETENCIES**

**Critical Thinking**

The professional duties of an appraiser require the ability to analyze problems systematically, organize information, identify key symptoms and causes and apply solutions. This involves a demonstrated ability to use one's knowledge and experience to solve problems effectively through logical and careful analysis.

**Communication**

The professional duties of an appraiser require the ability to communicate with, understand and respond to others effectively. This includes being an effective communicator when dealing with English or French as a second language, emotional situations, and personality differences in both client and colleague situations. People with this competency demonstrate a sincere effort to understand others and are able to communicate effectively both orally and in writing.

**FIRST PRINCIPLES OF VALUE**  
**APPRAISAL INSTITUTE OF CANADA**

**FIRST PRINCIPLES OF VALUE**

There are many aspects of real property consulting. Without suggesting any limitations, this concept may include valuation, use strategies, feasibility studies, litigation strategies, academic pursuits, and forecasting and strategic implementations. Even these examples can be expanded and refined. However, a common thread in each real property discipline is the need to understand the interrelationships between forces of economics, law and the marketplace on real property. The reliance on various Principles allows for a focused and disciplined approach to the requisite analyses and interaction between the various tangents that real estate consultants may pursue. Furthermore, a common understanding will enhance communication between consultants and their clients.

In order to achieve use of the CRA or AACI designation, the candidate must have experience and be proficient in the following First Principles of property value. Candidates employed in any of the real estate related disciplines listed must have experience in application and principles, which currently include the following:

**PROBLEM IDENTIFICATION**

The initial step in any valuation or consulting assignment is to understand the objective of the assignment. If the assignment is to opine on "market value", it is imperative to understand what is being valued and when is the value opinion to be effective. If the assignment is for a reason other than "market value" or extends beyond the issue of "market value" it remains imperative to understand the specifics of the issue being addressed in the analyses, opinions or initiative.

**PROPERTY CONTENT/PROPERTY RIGHTS**

## **Property Content**

In order to begin any assignment, the subject property(s) must be identified under four basic headings:

- (i) physical understanding, to include size, shape and topography of land; size, shape and utility of improvements (as this is only the initial step, further detail will be learned during the course of the investigations);
- (ii) legal understanding, to include the type of ownership (fee simple, leased fee, leasehold condominium, life estate, etc. )
- (iii) financial understanding, to include debt and equity elements (the exact measurement will not be understood until completion of a valuation analysis if this is the focus of the assignment, but the existence of these characteristics will help direct the requisite research or facilitate a consulting assignment), and;
- (iv) location understanding, to understand the socio-economic and geographic context of the assignment.

Regardless of the type of assignment/project the real estate consultant is engaged in, this fundamental knowledge is critical. For example, it may be that the issue of debt is of no consequence in a particular decision, but without the knowledge of the impact of debt on the property markets even a decision about its lack of importance in a particular assignment is unachievable.

## **Property Rights**

A formal definition can be found in basic real estate appraisal textbooks. An information discussion is provided herein.

Real property can only be valued, manipulated or otherwise used or discussed based on two legal criteria. Firstly, the consultant must identify what use permissions are available. Secondly, the consultant must identify what uses are not permissible, or the limitations (i.e., extent) on the permissible uses.

It is important to recognize that influences on property rights emanate from a variety of laws (federal, provincial/territorial, municipal - criminal, civil) and also include private agreements. Some are direct (i.e., zoning) and some indirect (i.e., capital gains taxation). The consultant must understand the property rights on the subject(s) and marketplace in general in order to conduct meaningful analyses.

It is incumbent on the valuer/consultant to understand what definition of "value" is appropriate to any principles of value assignments, and clearly identify the definition in any conclusions.

The traditional real estate valuation definition of fair market value (typically relied upon in appraisals completed for financing, etc.) may note the appropriate definition for an expropriation, assessment, site selection or other applications of our knowledge of principles of value. The definition relied upon provides a definable benchmark against which decisions affecting the property can be measured and presented to a third party within an appropriate context.

## **FUNCTION/PURPOSE**

The Purpose of the assignment is imbedded in the discussion of Problem Identification. To reiterate, it is imperative for the valuer/consultant to understand the object of the assignment.

The Function of the assignment may be to inform an educated client, assist a judicial body in a determination, or give guidance to a lender (with many other possibilities additional to this list). The Function of the assignment will also help guide the valuer/consultant in suggesting the type of report to be prepared, estimate a reasonable fee and be assured of a reasonable time to complete the necessary tasks.

### **HIGHEST & BEST USE**

The principle enjoys a specific definition in accordance with the Appraisal Institute of Canada, as follows:

"that use which, at the time of appraisal, is most likely to produce the greatest net return, in money or amenities, over a given period of time"

A more complete formal definition is available in various textbooks.

A practical review of the concept necessitates an understanding of (i) legal permissions and limitations (see Property Rights), the permissions that are available to real property, (ii) information about what permissions may practicably be available to real property, and (iii) what uses are not and would likely remain unavailable to real property. Without this knowledge the consultant /user cannot assess the various uses achievable.

### **LAND USE REGULATIONS**

Land use regulations are considered a subset of Property Rights and Highest and Best Use. Land use regulations provide (i) the permissions that are available to real property (ii) information about what permissions may practicably be available to real property and (iii) what uses are not and would likely remain unavailable to real property. Without this knowledge, the consultant/user cannot assess the various uses achievable.

### **ECONOMIC VARIABLES**

To understand what is meant by Economic Variables, it is first necessary to understand what economics means. In essence, economics is the study of the allocation of scarce resources. Land and market inputs all have limitations. Wasn't it Will Rogers who said of land, "They ain't making any more of it"?

Economic Variables is an all-encompassing term that catches tangible and intangible inputs to the real property market. Tangible examples might be the supply of land in an identifiable area, or the availability of labour. Intangible examples might be the cost of money (interest) or inflation rates.

### **LEGAL ISSUES**

The concept is broad in its scope but inescapable in all valuation/consulting assignments. Law affects all real matters. It may be limited to Property Rights or Land Use Regulations matters. It may be the focus of the project, such as litigation strategy assignments. It may be direct such as having knowledge of an Expropriation Act, or indirect such as taxation policies or in recognizing the contingent liability when an opinion is delivered.

Law may be Municipal, Provincial/Territorial, Federal or International. It is not necessary for the consultant to be an expert in all aspects of law. But it is incumbent on the consultant to be aware of changes in law and have a basic knowledge of those aspects of law having a direct bearing on a

particular assignment (i.e., Expropriation/Assessment Acts). Furthermore, each consultant should establish relationships with lawyers expert in a variety of aspects of law, so that they can be made aware of changes that could impact on real estate consulting matters.

## **RESEARCH**

Valuation and consulting assignments are typically a mixture of fact and opinion. Presumably the later is predicated on the interpretation of the former. Without appropriate facts, opinions are without foundation.

Research is typically divided between (i) gathering knowledge of the subject(s) and (ii) appropriate market evidence.

Without adequate knowledge of the subject the consultant is unable to offer any constructive comment on the real property. For example, a site may be 43,560 square feet (one acre). This could mean a site with dimensions 66 feet x 660 feet, perhaps inappropriate for a residential home, but ideal for a roadway.

Alternatively, the site could be about 208 feet square, with the opposite appropriate uses. Thus, adequate knowledge of the subject property, coupled with knowledge of the problem is necessary. The real estate consultant cannot operate in isolation of the marketplace. Once the inputs necessary to the solution of a problem are identified they can be reached. The accuracy of the evidence is of vital importance. Depending once again on the Problem, the research surrounding the market evidence may be as detailed as the research conducted on the subject property. Local standards and purpose of the assignment may dictate otherwise. But in all circumstances there must be at least a reasonable amount of research in order for the consultant to rely reasonably on such data.

The information confirmation process is often referred to as due diligence.

