



Appraisal Institute of Canada

Institut canadien des évaluateurs

Designation Examination ~ Accredited Appraiser Canadian Institute (AACI) Sample Case Study Question

The Appraisal Institute of Canada's written designation examination tests your ability to apply the First Principles of Value (www.aicanada.ca/images/content/file/first_principles_of_value.pdf) by answering a series of questions that reflect "real life" work experience. Specifically, the examination consists of one case study worth 40 marks and three short questions each worth 20 marks, for a total of 100 marks. The complete exam is to be answered in a three hour period. Below is a sample case study question and answer to help you prepare for what to expect from the examination.

CASE STUDY QUESTION

The client is a municipality that owns a 3 km long corridor that was at one time used as a transportation corridor. City Counsel 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 the 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.

Answer

This is an interesting valuation question that has many different possible answers depending on what the City Council is prepared to consider as allowable uses for the corridor lands.

This corridor like many public spaces has become an integral part of the decision making process of purchasers and vendors of adjoining and surrounding lands. Over time it is likely

that the value of these lands has spilled over into the values of the surrounding properties as participants have recognized the value of having green space associated with their investment and lifestyle. The current linear park creates a buffer between backyard neighbours and a pedestrian walkway from this residential neighbourhood to the business core that encourages the residents to walk or cycle to work.

Given that the City is the current owner of the corridor, it must ultimately consider not only the value that could be realized by selling the property for alternate uses, it must also consider the impact that such decisions might make on the values of adjoining and surrounding properties. Real property taxes are an annuity for the City and decisions considering alternate uses for the corridor would be incomplete without a consideration on the impact that such a decision would make on future property tax rolls.

In addressing this publicly important question it is my recommendation that we enter into discussion to determine the scope and definition of a consulting report that estimates the potential value of the corridor under various alternate uses and also considers the potential impact on the values of the surrounding and adjoining lands to determine which uses, including the existing use, that produces the greatest net return to the City.

In the alternative the City could consider an assignment to determine the market value of the corridor given the current use and land use restrictions; namely as a linear park. This restricted use would have limited market appeal given the number of purchasers other than the current owner who would be interested in purchasing parklands.

BACKGROUND THOUGHTS ON THE ASSIGNMENT BASED ON THE FIRST PRINCIPALS

Problem Identification

The valuation problem as identified is still vague; "The City has asked you to value the property", presumably to determine the market value. First step is to get a clear understanding from administration and City Counsel on the definition of the valuation problem.

- If the corridor is to be sold what alternative uses would City Counsel contemplate? Is the zoning to remain park space or would they consider alternate legal uses such as residential, commercial, transportation?
- In addition to acceptable alternate uses what density would the City Council consider?
- What impact does the war memorial have on any contemplated uses? Must the war memorial remain intact? What type of access to the war memorial must remain when considering alternate uses?
- Is the valuation problem to consider the value that flows from the existing green space provided by the corridor to the adjoining parcels? Is the valuation to consider the impact on value of adjoining parcels that may result from rezoning and selling the corridor? This consideration could form an integral part of the Highest and Best use

conclusions as it is likely that the value of the corridor, in its existing use has transferred to the adjoining parcels.

- Is the client looking for an appraisal of the corridor based on the current zoning and land use restrictions or is it looking for a consulting report that identifies various value ranges depending on alternative use scenarios?

Property Content/Property Rights

Property Content

- A review of any plans, surveys or GIS information that the City has on the corridor as well as a walk through the Corridor with City Planning staff to determine the size, topography and utility. A discussion with the planner should take place on how the existing use fits in with current planning and land use and how alternate uses might conform or conflict with the existing and future development neighbourhood plans. The purpose is to determine in general what utility the corridor offers given the current use and possible alternatives as outlined by City Counsel and Administration in the scope of the valuation problem.
- A review of land title documents, and city records is required to determine the type of ownership and identification of any encumbrances on the land. In particular a clear understanding of any registered or unregistered contracts that have been made with the community or any community groups regarding the use of the property and the erection of the war memorial is critical. Also a review to determine if any provincial or federal land use restrictions are applicable should be undertaken given the lands past and present use.
- In exploring a financial understanding determine if the City is considering a public-private partnership arrangement to facilitate transfer of the corridor or to encourage a certain type(s) of development on the corridor lands? Also a review of current banking and lending policies to determine if there are any shortages of funds for the types of alternate uses being contemplated.
- A discussion with the planner should take place on how the existing use fits in with current planning and land use and how alternate uses might conform or conflict with the existing and future development neighbourhood plans. The purpose is to determine in general what utility the corridor offers given the current use and possible alternatives as outlined by City Counsel and Administration in the scope of the valuation problem. A historical review of the use of the corridor is required to determine the probability of soil contamination or soil stability issues as a result of past use. (What type of corridor was this? How was it used? Was this type of use associated with land use associated risks today?)

Property Rights

As identified above there are many possible 'values' that may be considered in this valuation assignment depending on the property rights and properties to be considered. Before completing the assignment the following must be clearly understood:

- What is the definition of value and purpose of the report?

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Written Examination

Sample Case Study ~ AACI Designation

- Is it to determine an estimate of market value if the property were sold in its existing use with current land use restrictions?
- Is it to determine estimates of market value of the property if it were sold under different land use restrictions?
- Is the value to be determined fee simple unencumbered? Or do certain encumbrances such as the war memorial have to be considered?
- Are there any other covenants, easements or encumbrances identified in any of the previous steps that need to either be considered or explicitly excluded from the property rights considered?
- Is the impact on the values and property rights of the properties adjoining the corridor to be considered and analysed in the report?
- Does the scope of the analysis include the impact of property values and property taxes as a result of changes in values for both the corridor lands becoming taxable and the possible negative impacts on the adjoining lands as the corridor becomes developed?

Function/Purpose

Many questions regarding the function and purpose of the assignment have been addressed above. In addition to those questions clarity is also required to determine:

- Who are the intended readers of the report?
- Will the author have to present the report and findings to the City Council?
- Will the report and the author be made available for public hearings and consultations? If so what is anticipated in terms of process, number of appearances and background of attendees?
- Will the report be made available to potential purchasers or partners in a public-private partnership arrangement?
- When is the report required?

Highest & Best Use

The highest and best use section of this report will be strongly influenced by the alternative uses that the City Council has determined as applicable for the purposes of the report. Each alternative use will have to be explored and weighed to determine its ranking towards that use from amongst all the other potential uses that have been identified to be considered produces the greatest net return; as quantified by the definition of value determined in the problem identification and property rights and contents review.

Critical to the determination of the highest and best use for the corridor lands will be a clear understanding and identification of any assumptions regarding legal permissions and limitations that are available to the property.

Also key to the highest best use determination is the understanding of whether or not the net impact of market values on the adjoining properties is to be considered along with the alternative uses for corridor lands.

Land Use Regulations

This valuation assignment is centred on understanding:

- the permissions that are available to real property – this clarifies the uses that are available to be considered under the existing conditions surrounding the corridor.
- information about what permissions may practicably be available to real property – this clarifies the potential alternative uses for the corridor that can be considered, and
- what uses are not and would likely remain unavailable to real property. – This clarifies what alternate uses can or should not be considered for the corridor

Without this knowledge, the consultant/user cannot assess the various uses achievable. A clear understanding of these three criteria must be obtained from the client prior to undertaking the analysis portion of the valuation assignment.

Economic Variables

What is the supply of land in the neighbourhood for the various alternative uses? What is the demand for properties in the neighbourhood for the alternative uses to be considered? If the valuation problem is to determine the market value of corridor subject to the existing use and land use restrictions; what market indicators are available for similar lands in the neighbourhood, region or beyond? Is there sufficient sales information of properties adjoining the corridor, if the valuation problem is to include the property value impact alternative uses may have on adjoining lands?

Legal Issues

In addition to the legal issues of allowable or probable land use identified above; this assignment requires clarity surrounding access to and continued use of the war memorial. What rights has the owner conveyed to the community group that developed the war memorial?

An understanding of legal issues will also arise if the scope of the assignment includes an analysis on the property tax impact of the subject lands and adjoining properties as a result of proposed alternate uses.

Research

The amount and type of research required for this assignment will vary greatly depending on the number of alternative uses the City is prepared to consider. Given that the City is the client, the planning and economic development departments may be willing to share market and demographic research that they have already conducted.