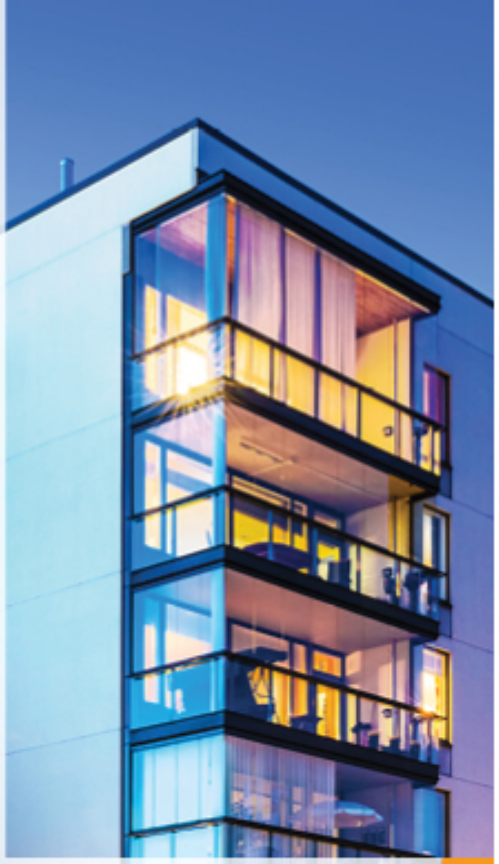
AE Exam Preparation Webinar

Appraisal Institute of Canada



Final Steps to Designation

Lorem Ipsum

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What We Will Be Talking About Today

The Applied Experience Written Exam (AEWE)

- Background and Content of the Exam
- First Principles of Value
- How to Prepare for the Exam
- Tips for Success

The Applied Experience Written Exam (AEWE)

The Exam is one of the last steps in attaining your designation but you have to start preparing at the start of your candidacy

Before writing the Exam:

- Meet with your Co-signer(s) regularly
- Discuss the First Principles in your AEP Progress Report
  - Are you applying the First Principles of Value in your work?
  - Do you have enough experience in all of the First Principles?
  - Are there any gaps?
  - What have you learned and what can you do to improve your experience and increase your expertise?

Written Examination
Background

- This is a written examination that assesses the candidates' understanding of the First Principles of Value, as well as the competencies of Critical Thinking and Communication, as they relate to experiential knowledge.

- Experiential knowledge refers to the wisdom gained from experience and the insight to apply academic knowledge to actual or simulated situations.

Key Point: You prepare for the exam by using academic knowledge in your work experience

Written Examination
Content

The examination consists of:

- one case study question (worth 40% of the marks), selected by the candidate from at least four options provided.
- three short answer questions (worth 20% each, for a total of 60% of the marks) based on your work experience, again selected from a set of at least seven options.

Key Point: The exam is a combination of theory and your practical knowledge

Written Examination
Design

- The examination questions were developed by the Appraisal Institute of Canada (AIC) in consultation with AIC's education partner, the Real Estate Division (RED) of the Sauder School of Business at the University of British Columbia (UBC).
- The examination content and marking guidelines are determined by AIC.
- The administration of the examination is the responsibility of the RED.

Key Point: It is our Exam – Not UBC's!

Written Examination

Markers

- All Markers are Designated Members of AIC, each with a decade or more of experience in the fee and/or the non-fee sector
- We have markers from across Canada
  - Exams can be marked in English or French
  - All marking is blind – The marker does not have the name of the Candidate and vice versa.
  - The markers follow a standard marking criteria
- The information provided in your answers is not used for any other purpose
- Marker consistency exercises are regularly applied to fairness

Key Point: Markers are experienced Designated Members

Written Examination
Pass Mark

- We have set the passing grade at 70%
- If you do not pass, you may rewrite at a future sitting
- Exams with a failing grade are automatically reviewed by a second grader
- After 3 unsuccessful attempts at the exam, you must apply to the AEWE Grading Committee who may specify additional education before you can sit the exam again

Key Point: The Passing Grade is 70%

What are the *First Principles of Value*?

- The First Principles of Value are critical concepts that you need to understand to accurately value real property.
- They form the basis for the assumptions that you will make in reporting to your clients.

Comparing Former to Current
First Principles of Value

1. Problem Identification
2. Function (or Intended Use) & Purpose
3. Property Content
   - Physical understanding
   - Legal understanding
   - Financial understanding
   - Location understanding
4. Property Rights
5. Land Use Regulations
6. Legal Issues
7. Highest And Best Use
8. Economic Variables
9. Research

1. Problem Identification
   - Purpose of the assignment
   - Intended use of the assignment
   - Definition of value
2. Property Content
   - Physical understanding
   - Legal understanding
   - Financial understanding
   - Location understanding
3. Legal Considerations
   - Property Rights
   - Land Use Regulations
   - Legislation and the Courts
4. Highest And Best Use
5. Research
6. Economic Analysis

What are the *First Principles of Value*?

Problem Identification

- The initial step in any valuation or consulting assignment is to establish the *context* for the work to be completed. In other words, what exactly is needed to be done and why.

- There are three main elements to Problem Identification:
  - Purpose of the assignment
  - Intended Use of the assignment
  - Definition of value

The specific problem that is the focus of the case study should be in your answer. The graders cannot assume any knowledge on your part.

What are the *First Principles of Value*?

Purpose of the assignment

- The Purpose of the assignment includes what value is being estimated, often in response to the Intended Use of the assignment.
- **Purpose: the valuation professional's objective**
- **Example: "to estimate market value as of the effective date"**

What are the *First Principles of Value*?

Intended Use of the assignment

- The Intended Use of the assignment will help guide you in suggesting the type of report to be prepared, and define who can use the report as an Intended User.

- **Intended Use: the client's objective**

- **Example: "to use for mortgage financing"**

You should clearly state the Purpose and the Intended Use of the assignment to show your understanding of these two concepts and how they will set the direction of your work.

What are the *First Principles of Value*?

Definition of Value

- If the assignment is to give an opinion on "market value", you must understand what interest (i.e. fee simple) is being valued and the effective date of the value opinion.
- If the assignment is for something 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 conclusions.

You do not need to provide a verbatim definition of value, but you must show that you know what is to be valued in the case study scenario.

What are the *First Principles of Value*?

Property Content

- To complete any assignment, the subject property must be understood under 4 types of characteristics:
  - Physical understanding
  - Legal understanding
  - Financial understanding
  - Location understanding
- **You need to address each of these points in your answer.**
- **Your answer should include the details that you would need to know to complete the assignment and how you would obtain this information. What resources would you use? With whom would you consult?**
- **Be brief but show that you understand why they are important to the assignment that is described in the case study.**

What are the *First Principles of Value*?

Legal Considerations

- These are always part of a real property valuation assignment.
- There are Three elements to Legal Considerations:
  - Property Rights
  - Land Use Regulations
  - Legislation and the Courts

What are the *First Principles of Value*?

Property Rights

- Ownership influences on property rights come from a variety of laws (federal, provincial/territorial, municipal) and can also include private agreements (leases, restrictive covenants, etc.).
- The valuation professional must identify the real property in question (fee simple, leased fee, leasehold condominium, life estate, etc.) and any potential encumbrances on the property.
- The valuation professional must understand the effect of the applicable property rights on the subject and the marketplace in general in order to conduct meaningful analyses.

What are the *First Principles of Value*?

Property Rights (cont.)

- There is more than simply the traditional real estate valuation definition of fair market value!
- Other examples might include an appropriate value definition for:
  - Expropriation
  - Assessment
  - Value in Use
  - Other valuation scenarios

You must understand which definition of "value" is appropriate for the case study scenario, clearly identify the rights being appraised, and tell your reasons why.

What are the *First Principles of Value*?

Land Use Regulations

- Land use regulations provide:

  – the permissions that are available to the subject property,
  – information about what permissions may practicably be available to the subject property,
  – what uses are and would likely remain unavailable to the subject property.

- Without this knowledge, you cannot assess the various achievable uses for the subject property.

You should discuss the various potential permissions and restrictions on use, using assumptions if necessary. As with each First Principle, show your knowledge of how this applies to the case study scenario.

What steps would you take to obtain the necessary information to complete the assignment?

What are the *First Principles of Value*?

Legislation and the Courts

- Law affects all real property 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.

What are the *First Principles of Value*?

Legislation and the Courts (cont.)

- 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).

Even though legal issues may not necessarily be central the case study that you are answering, you must still present enough information to show your understanding of their importance in valuation in general and in this case study in particular.

As with the other sections of the case study, you should indicate what you would research, how you would obtain the required information, and why it is important.

What are the *First Principles of Value*?

Highest And Best Use (HABU)

- Highest And Best Use is central to real property valuation.
- You need to understand and incorporate the contextual information in the previous First Principles to determine HABU.

This is often the weakest part of many case study answers. While HABU is often the existing use in every day assignments, candidates must remember that the exam is the opportunity to show their knowledge and understanding of the concept.

A good start is to describe the 4 tests of HABU and how they apply to the case study scenario. But don't stop there!

A strong answer will discuss potential uses and briefly describe your rationale behind eliminating various uses to arrive at the HABU conclusion.

What are the *First Principles of Value*?

Once you have identified the context and the HABU, next you must show that you understand how it all relates to completing the assignment proposed in the case study in the final two First Principles:

- **Research**
- **Economic Analysis**

What are the *First Principles of Value*?

Research

- Valuation and consulting assignments are typically a mixture of fact and opinion. Presumably the latter is predicated on the interpretation of the former.
- Without appropriate facts, opinions are without foundation.
- Research is typically divided between gathering knowledge of the subject and appropriate market evidence.
- Without adequate knowledge of the subject, you are unable to offer any constructive comments on the property.

You should describe what steps you would take, what research you would conduct, what specific data you would need to complete the assignment.

What are the *First Principles of Value*?

Economic Analysis

- The valuation professional applies economic analysis to understand the impact of market variables on a property's value and use.
- This is where the rubber meets the road. How would you complete this valuation assignment?
- No math is needed in this exam.

Describe the approaches to value you would use and which approaches you would consider inapplicable – and why! – to show your comprehensive understanding of the appraisal process and how you apply the First Principles.

Don't forget to answer all parts of the case study question. Re-read the question before finalizing your response to make sure you provide a proper and adequate conclusion.

Organizing Yourself During the Examination

- Read all the questions before answering them.
- Develop your game plan of which questions you will answer first.
- Take a few minutes to write an outline of your case study answer.
- Check the time periodically to ensure you are effectively using your time.
- The case study is worth 40% and each work experience question is 20%.
- It is a 3 hour exam. A good guideline is to allocate:
  - 60 minutes for the case study
  - 30 minutes for each work experience question
- This gives you 30 minutes to review your answers to make sure you didn't miss writing anything down and that your answers make sense.

What are the most common mistakes? – Case Study

- Answering the case study with a series of questions.
- Assuming away unknown issues, such as assuming the existing use is the Highest And Best Use.
- Using acronyms.
- Taking too much time to describe the contextual sections, which robs you of time to answer the HABU, Research, and Economic Analysis sections.

Tips for Success – Case Study

- Use the First Principles as headings in your answer to help keep you organized.
- Manage your time while writing the case study, allocating the appropriate amount of time for each section based on their point value.
- Be brief but complete in the context sections to give you more time to be descriptive in the latter sections of the answer.
- Make sure you answer all parts of the question being asked.
- Try to relate the scenario to your work experience. How did you solve this problem or one like it in real life?

Tips for Success – Work Experience Questions

- Prepare your work experience examples ahead of time.
- Discuss them with your Co-signer and colleagues who have successfully written the exam.
- Make sure your work examples fit more than one First Principle and ideally more than one appraisal problem, so you can be ready for different types of questions.
- Refine your answers, including necessary details but making sure they don't take too much time to write. Remember, 30 minutes per question!
- Practice writing your examples to ensure you know them well, so you aren't stuck thinking of which of your stories you might use in the exam or how you might tell them.

Tips for Success – Work Experience Questions

A long answer (over 2 pages) is not always the best answer. If you are succinct and to the point (1 to 2 pages), you will most likely get a good grade, providing of course you ANSWER THE QUESTION, including:

- Where is the property?
- Why is this example suitable to this question?
- How did you complete this assignment?
- What actions did you take, what were your successes and failures along the way?
- What resources did you use/who did you consult?
- What other issues did you face during this assignment?
- What did you learn?
- How did this specific experience help you develop professionally?

Be Prepared!

- Prepare your work examples early
- Get a good night's sleep the night before, don't cram
- Make sure you eat something before and stay hydrated during the exam
- Have a game plan for how you will approach the exam – Will I answer the case study first? Work experience questions first?
- Review the main themes of your work experience examples & First Principles
- **Think positive thoughts and aim for success**
- **Remember to relax and breathe ☺**

Final Tips
to Successfully completing AE Exam

How to write the exam efficiently and effectively:

- The exam is three hours – allot your time accordingly
- Answer first the questions that you find the easiest
- Ensure you write legibly and preferably with a pen
- Read each question fully then answer appropriately
- Do not be vague when asked to describe a property
- Explain your assumptions

Final Tips
to Successfully completing AE Exam

How to write the exam efficiently and effectively:

- Give work examples that are suitable to the question you are answering
- Use appropriate terminology
- Provide an answer to all parts of the question
- Consider using Point Form for details that could be in a list
- Use “I” not “we” in your answers, to be clear about what you did
- Explain what you learned from each work experience example

Questions?