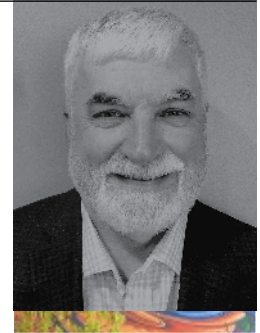


The valuation of

# difficult properties



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This article deals with valuing properties that are unique, not because of their specific use, but because of their history and architectural appeal.

The former Carnegie Library is located in Ingersoll, Ontario, which had a population of 13,000 at the date of valuation. It was one of 125 Carnegie libraries built in Canada with funds from the Andrew Carnegie Foundation in the US. The building is a testimony to the awareness of the role of libraries and educational institutions in combatting illiteracy. As well as being a renowned library, it is interesting to note that the building housed Canada's first adult art class.

The building is 119 years old and is historically designated. It is a raised single floor of approximately 4,200 square feet. Almost perfectly square in design, it has a thrust front entrance with a decorative central arch. The corners are jettied to form a column with an iconic capital at the top. The middle support buttresses have a similar capital. The upper part of the building has a band course with some decorative bracketing. The front

and side windows have a brick arch with a top medallion and termination dripstones. The renovations and changes to the building have carefully preserved its architecture and increased the overall utility by opening up the lower level.

The building was purchased in February 2018 and subsequently renovated to provide upper-end quality space for a wide variety of venues. There are no

other facilities in Ingersoll similar to this building and the only comparable structure is located 5 km to the south.

The zoning of the property shows a wide variety of potential uses. The properties surrounding the building consist of commercially orientated space, some of which have trade names, while others are commonly found in the marketplace.



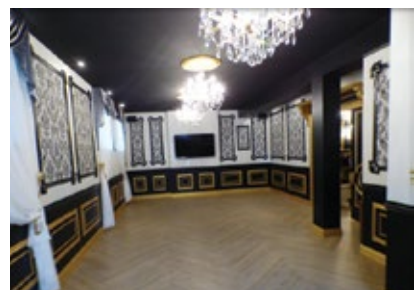
VIEW OF THE FORMER CARNEGIE LIBRARY BEFORE PURCHASE



VIEW OF THE BUILDING AFTER PURCHASE



VIEW OF THE LOWER LEVEL AFTER RENOVATIONS



VIEW OF THE MAIN FLOOR GATHERING ROOM AFTER RENOVATIONS

Since the opening of the facility, it has been well received by the general public, with several weddings and social events booked. Unfortunately, there are no historical income and expense statements that a valuer could use for an income approach.

A cost approach is out of the question for two reasons. First, these properties are not bought and sold based on a depreciated building value or the land component. Second, there are no land sales in the core area of Ingersoll to support any type of land value. Because of this, the only possible solution to the value of the property is the direct comparison approach.

Regardless of the type of commercial property to be appraised, it is important to determine the general trends in the local community. This can be accomplished by doing four things:

- (1) Since the subject property is located in the core area, walk the downtown core and observe the amount of vacant space. In our case, it was 10%, which is not out of line with communities the size of Ingersoll.
- (2) Analyze the dollar value of building permits issued by the town over the last five to 10 years. Ingersoll is in a positive growth cycle, particularly in the development of residential housing. Commercial development has fluctuated up and down, which is typical of smaller communities like Ingersoll.
- (3) Complete a time plot of all one-floor commercial properties that sold in the community over the last 10 to 20 years. This provides a good view of market activity and, more importantly, its direction.
- (4) Determine the economic strength of the community by viewing the types of local industries as well as other factors such as highway access. For example, Ingersoll is relatively close to Highway 401 and the 2,500-employee CAMI automotive plant is located in the community.

The purpose of gathering this information is to determine the strength of the commercial market in which the valuer is working rather than focusing on the unique commercial property being appraised. The goal is to establish a baseline for the subject property relative to the general composition of its marketplace as a commercial building.

Since marketability is a factor that needs to be considered in valuing unique properties, an appraiser needs to consider the possible market arrangements of the property. (See Table 1)

Table 1

MARKET ARRANGEMENT	BUYERS	SELLERS
Perfect competition	many	many
Oligopsony	few	many
Oligopoly	many	few
Bilateral monopoly	many	one
Monopsony	one	many
Bilateral oligopoly	few	few
Duopoly	many	two
Duopsony	two	many

It also helps to examine the possible uses of the property relative to the zoning bylaw. Another aspect is to lay out the search parameters for similar comparable sales for the direct comparison approach. Table 2 reviews the possible uses of the property under Ingersoll's current zoning bylaw.

Conducting this exercise showed that, relative to the many uses within the zoning bylaw, only a few potential uses were going to emerge. This means that the marketing is going to be 'thin' unless a potential purchaser is able to secure rezoning.

Attention then needed to be turned to identifying sales for the direct comparison approach. This was a daunting task that required reviewing over 2,000 sales of commercial properties throughout Southwestern Ontario. This was accomplished by using PMAC propertyline™ records and methodically going through each sale picture on the computer. Table 3 shows the counties searched.

Table 2

USES	POSSIBLE HIGHEST AND BEST USE
Amusement arcade	NO
Apartment building	NO
Assembly hall	NO
Automobile service station	NO
Bank or financial institution	NO
Bar or tavern	YES
Billiard or pool hall	NO
Boarding or lodging house	NO
Bowling alley	NO
Bus station	NO
Business or professional office	YES
Business service establishment	YES
Building supply store	NO
Commercial school	NO
Convenience store	NO
Daycare centre	NO
Drycleaning establishment	NO
Dwelling unit converted to 4 units	NO
Dwelling unit in the upper portion of a non-residential building	NO
Eating establishment	YES
Fitness club	NO
Funeral home	NO
Government administrative office	NO
Group home	NO
Home occupation	NO
Long-term care facility	NO
Hotel or motel	NO
Laundromat	NO
Medical centre	YES
Microbrewery	NO
Motor vehicle dealership	NO
Multiple unit dwelling	NO
Parking lot	NO
Personal service establishment	YES
Place of worship	YES
Printing company	NO
Public garage	NO
Public library	NO
Public use	NO
Recreation building	NO
Retail store	YES
Service shop	NO
Special needs home	NO
Theatre or cinema	NO
Veterinary clinic	NO
Wholesale outlet	NO



Table 3

COUNTY NAME	NUMBER OF MUNICIPALITIES IN THE COUNTIES
Middlesex	9
Elgin	8
Oxford	8
Perth	6
Niagara	12
Essex	9
Chatham-Kent	1
Huron	9
Wellington	8
Waterloo	7
TOTAL	77

SEARCH PERIOD	January 1, 2010 to effective date of appraisal
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MPAC categorizes sales activity by a given classification. The problem is that not all sales are placed in the right classification. To find the appropriate sales, a variety of real estate product classifications were searched. (See Table 4)

Table 4

CODE	NAME OF REAL ESTATE CLASSIFICATION
400	Small office building under 7,500 square feet
401	Small medical/dental under 7,500
409	Retail one story generally over 10,000 square feet
410	Retail one story generally under 10,000 square feet
411	Restaurant conventional
432	Banks and similar institutions generally less than 7,500 square feet
441	Tavern/public house
445	Limited service hotel
462	Country Inns, small inns
470	Multiplex consisting of retail/offices and other uses greater than 10,000 square feet
471	Same as above less 10,000 square feet
473	Retail with more than 1 non-retail use
477	Retail with offices less than 10,000 square feet. Offices could be on the second floor
499	Unspecified commercial property
600	All institutional properties not specifically defined
610	Other educational institutions
731	Library and/or literary institutions
734	Banquet hall
735	Assembly hall/community hall
736	Clubs, private, fraternity
800	Special purpose
832	Government historical building or monument

NUMBER OF SALES VIEWED	2,276
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### Results of the search

After searching through the sales data, there were about 35 observations of properties that were improved with a unique or different building. They were chosen because of architectural interest, original building construction dates, and differences in overall building design and use. The possible number of sales selected represented 1.5% of the entire possible dataset. Of this latter group, there were only about six indexes that could be considered as comparable sales.

The search tells us that properties with unique architectural features that were used as some type of institutional property in the past do not trade very frequently. Certainly, an arguable point is that there are not many of these types of properties in the marketplace. The other statement that could be made is that these properties are present in the marketplace, but they have not traded. This means that they are viable entities and have market acceptance. However, at the end of the day, we are seeing a limited number of sales.

The reason why we do not see many observations of these sales in the marketplace is that they require a large capital input to bring the buildings up to a modern and unique standard. Therefore, there is only a limited number of buyers that wish to preserve and modernize these types of buildings. As well, there is a limited number of buyers who want to purchase these buildings after they have been renovated and modernized. We did not condition on any specific sale price range when we searched for comparable sales.

The following schedules indicate the indexes chosen to provide evidence as to the subject property's value by direct comparison. These indexes represent the entire population of sales data, even though they are drawn out of a common pool.

### 807 King Street E, Cambridge

Date of Sale: May 2016

Sale Price: \$1,363,589



This property is located on the corner of Church Street North and King Street East. The building is 122 years old and is occupied by BMO. The site area is 14,035 square feet. The building is not historically designated. It is designed in the Beaux-Arts style, which is reminiscent of buildings constructed to give some 'drama' to the core area. It features quoined corners, a flat roof, classical columns with capitals, cornice lines with fine details, and an asymmetrical window pattern with arched windows and elements. The building is in good condition. It contains 8,459 square feet.

#### Units of Comparison Summary

Sale Price Per Square Foot of Building: \$161.20

### 8 Main Street, Cambridge

Date of Sale: November 2018

Sale Price: \$1,056,400



This property is located on the corner of Main Street and Water Street or #24. The site area is 3,676 square feet. The building on the property is 8,165 square feet and is a former Bank of Montreal building. It is occupied by Wozniak Denture Clinic and a 'future' dentistry clinic. The building is not

historically designated. However, it was the original place for the Merchants Bank of Canada. It is a Beaux-Art style building, with smooth ashlar limestone sheathing, yellow brick, and polished granite on the exterior. At the time of the sale, the building had been updated.

**Units of Comparison Summary**

Sale Price Per Square Foot of Building: \$129.38

**27 Main Street S, Milverton**

**Sale Date: July 2017**

**Sale Price: \$465,000**



This property is located on the east side of Main Street South, south of Cruikshank Street. The building is 108 years old and consists of a former library. It is 3,537 square feet. The site size is 6,970 square feet. **The building is not historically designated, but a grant was received from the Carnegie Library Foundation to build the building in the community.** The building is reported to be in above average condition. It had been sold to be converted into a house and studio. The property is zoned C1.

**Units of Comparison Summary**

Sale Price Per Square Foot of Building: \$130.14

**71 Frank Street, Strathroy-Caradoc**

**Date of Sale: June 2017**

**Sale Price: \$1,500,000**

This property is located on the corner of Centre Street West and Frank Street. The site size is 5,227 square feet. The building is 128 years old and contains 9,900 square feet. This building was originally designed by Thomas Fuller, who was the architect of the Parliament buildings and was given



the contract to construct a Federal Post Office in Strathroy. It was subsequently converted to a restaurant and pub in 2015, along with eight suites known as the Clock Tower Inn in 2007. The building has been upgraded, including a new HVAC, central vacuum, on-demand water heaters, new patio, brick repointing, two sump pumps, renovated front entrances, and a new fire protection panel. The property is historically designated because of its history and its architecture: French Renaissance Revival and High Victorian Gothic Detail.

**Units of Comparison Summary**

Sale Price Per Square Foot of Building: \$151.52

**131 Wellington Street, London**

**Date of Sale: July 2017**

**Sale Price: \$439,000**



This property is located on the corner of Hill Street and Wellington Street. The lot size is 4,400 square feet. The building contains 4,052 square feet. The building is historically designated and was built 127 years ago. It was built by Henry Winder and had been occupied by the Winder family until 1973. The building is a good example of the Italianate style with wide

flush board wood siding, a decorative frieze under the eaves on all four sides, segmental window and door openings, low pitched hip roof, wood quoins on the corners, recessed front doorcase with geometric woodworking detail around the alcove, woodwork in the bottom halves of the sidelights, and a prominent front door with a large distinctive transom. The building has been historically restored and is occupied by some office tenants.

**Units of Comparison Summary**

Sale Price Per Square Foot of Building: \$108.34

**156 Argyle St N, Cambridge**

**Date of Sale: March 2017**

**Sale Price: \$1,100,000**



This property is located on the corner of Duke Street and Argyle Street North. The site size is 5,940 square feet. The building on the site contains 5,629 square feet. It is 107 years old. This building is a Carnegie Library. It was upgraded/renovated in 2012 with new heating, AC, windows and roof. Very high-end finishing throughout the building includes a tin ceiling, herringbone wood floors, and glass partitions. The lower level has 10-foot ceilings with newly renovated kitchen and washrooms. **The building is not designated, but is significant because it is one of Carnegie's libraries** and is a good example of the Beaux-Arts style with concrete ionic pilasters, a vaulted vestibule roof, art deco wall lamps, and slate hipped gable roof.

**Units of Comparison Summary**

Sale Price Per Square Foot of Building: \$195.42



### Analysis of the data

The differences between the low and high selling prices per square foot of building, inclusive of the land, was 80%. This was unexpected, since we anticipated a much larger spread going into the analysis given the differences in the sales in terms of building size, location, etc. There were no other possible sales to use in the analysis from the database.

The key to the direct comparison puzzle was the selection of the predictor variables that would aid the valuer in both reducing and explaining the 80% difference in the spread of the comparable sale prices. Fortunately, we elected to use quality point as an analytical tool in the direct comparison approach.

The predictor variables found to be the most effective were location, building size, architecture, condition, and lot size. The predictor variables that were not effective were historical designation, zoning, parking, and age of building. It was noted that time was not a factor, since we tried various annual time adjustments and there was no response to the coefficient of variance (%) which is centered on the mean adjusted selling price per square foot of building (main and basement).

For the sake of brevity, we found that the quality point analysis reduced the variation in the overall selling price per square foot of building from 80% to 6%. This was only accomplished by selecting the correct predictor variables, scoring the variables using an ordinal scale of 1-4-9-16-25-36-49, and using a built-in solver found in Excel. All of which was the quality point platform for analysis.

This solver was essential in establishing the weights for each predictor variable. It was interesting to note that the weights allocated to the predictor variables told an important story regarding the processes of reducing variation in the selling prices of the comparables. (See Table 5)

Table 5

PREDICTOR VARIABLES USED IN THE ANALYSIS OF THE COMPARABLE SALES	PERCENTAGE WEIGHT ALLOCATED TO THE PREDICTOR VARIABLES BY THE SOLVER
Location	5%
Building size	11%
Architecture	24%
Condition	52%
Lot Size	8%
TOTAL SCORE OF WEIGHTS	100%

The dominating predictor variables in our case were the architecture of the buildings on the sale properties and their condition. Building size also returned a fairly high weight in explaining the differences in price. The analysis of the data may indicate that, in future valuations of unique properties, these could be potential predictor variables that might help to explain and reduce the selling price of the unique property comparables.

### Conclusion

Valuing unique properties, particularly ones with an interesting history and improved with buildings possessing good architectural detail, is a formidable task. It is easy to get overwhelmed with the assignment. To alleviate this burden,

it is important to break the appraisal challenge into manageable parts. Doing so will lead the real estate practitioner to the right valuation conclusion.

Many real estate practitioners do not look beyond the borders of the actual geographical location of the unique property at hand. Location (5%) was not a significant factor in the analysis of our dataset. Therefore, search parameters should include as many similar counties or regions that are located in relatively close proximity. Do not go with the first set of sales that you see. Create a selection of the potential sales and sort them into three categories: very comparable, somewhat comparable, and least comparable.

Finally, isolate the market arrangement of the unique property at hand. This will aid the real estate practitioner in the justification of the end value only after completing good 'on-the-ground' research. The use of quality point analysis is a significant tool in testing for the correct predictor variables and to prove one's adjustments or decisions regarding comparable sales. It does this two ways. First, by observing the COV% (coefficient of variance) around the mean of the adjusted unit of comparison. The lower the number from the 'going in' differences of the sales (80%) indicates that the valuer is on the right track. Second, quality point can use the allocated scores of the predictor variables to predict the actual selling price of each sale. This predicted price is compared to the actual price to measure the residuals. In this analysis, the residuals were between 2.0% and 9.16%, with an average of 5.08%. In other words, this valuer was not far off in the selection of predictor variances and their allocated scores.

As a footnote, the owners of the building have hired a management company to run the facility so that they can attend to other real estate matters. 📌