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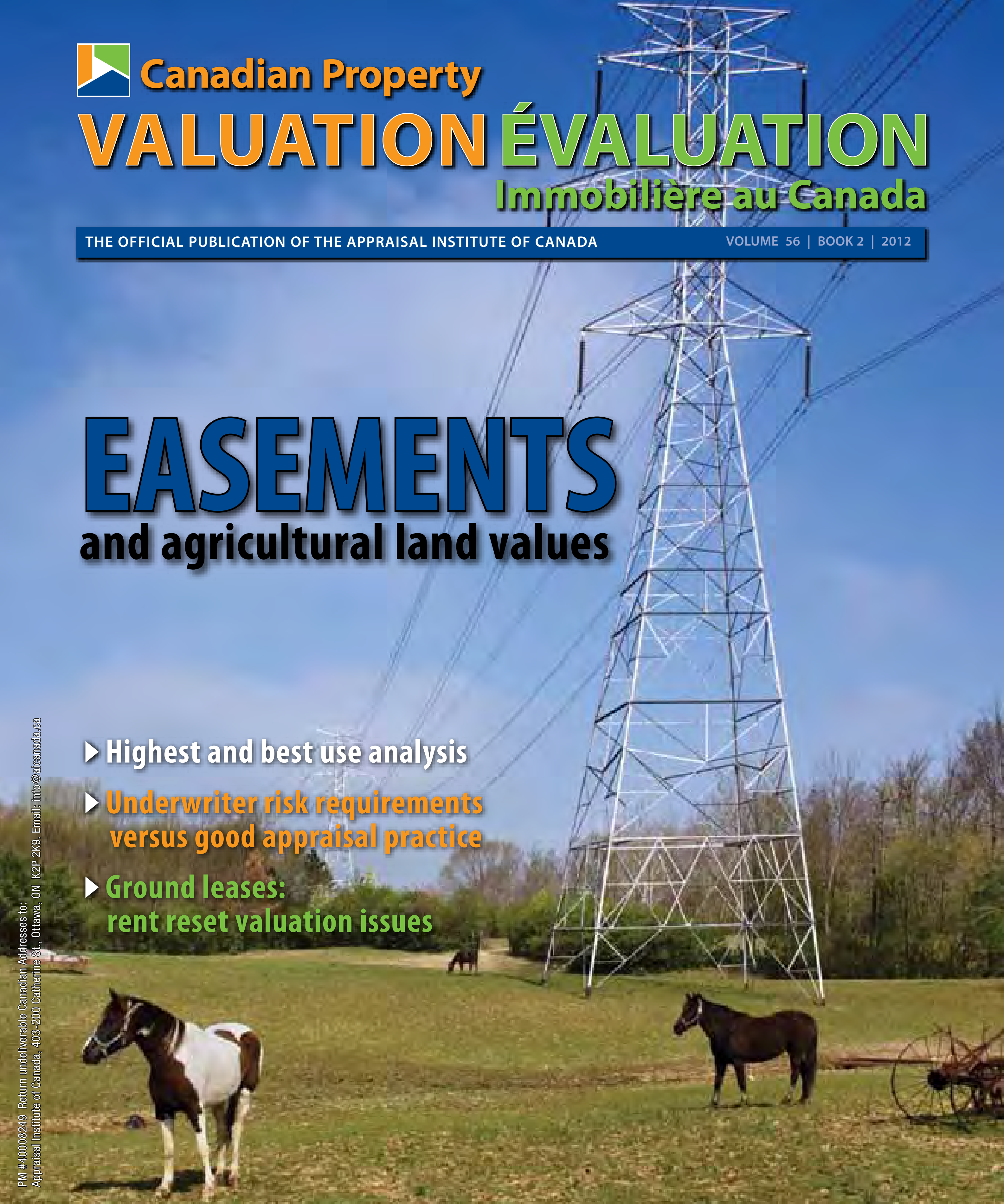
Immobilière au Canada

THE OFFICIAL PUBLICATION OF THE APPRAISAL INSTITUTE OF CANADA

VOLUME 56 | BOOK 2 | 2012



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Volume 56, Book 2, 2012

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Contents

Published by the

Appraisal Institute of Canada
Institut canadien des évaluateurs

403-200 Catherine Street,
Ottawa, ON K2P 2K9
Phone: (613) 234-6533 Fax: (613) 234-7197
Web site: www.aicanada.ca
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Indexed in the Canadian Business Index and available on-line in the Canadian Business & Current Affairs database.

ISSN 0827-2697

Publication Mails Agreement #40008249.
Return undeliverable Canadian addresses to: Appraisal Institute of Canada, 403-200 Catherine St., Ottawa, ON K2P 2K9. Email: info@aicanada.ca

Publication management, design and production by:

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3rd Floor – 2020 Portage Avenue
Winnipeg, MB R3J 0K4
Phone: 866-985-9780 • Fax: 866-985-9799
E-mail: info@kelman.ca • Web: www.kelman.ca

Design/Layout: Theresa Kurjewicz
Marketing Manager: Kris Fillion
Advertising Co-ordinator: Lauren Campbell

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FSC® C103094
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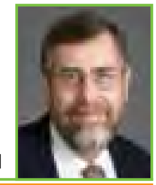
FROM THE PRESIDENT



Michael Mendela, AACI

Transformation is happening

As you read this message, the Appraisal Institute of Canada (AIC) will be making final preparations for the annual June conference and Annual General Meeting (AGM) in Ottawa. During the AGM, I will step aside as president, leaving that job in the capable hands of David Shum. This transition should be seamless, as David continues with his work on the board and committees to ensure that we keep moving ahead with the ongoing changes that we committed to at the inception of my year as president. To say that this past year has flown by is trite, yet, spot on, in describing the past 12 months. It has been a year marked by transformation as we endeavour to adapt and improve this association for the benefit of all members. Not since leaving Winnipeg has the association been faced with so many staff changes and new initiatives. Here are some of the initiatives underpinning this evolution:

- a restructured insurance program based on risk assessment, rather than the 'one size fits all' approach we currently have;
- a new operational structure for the Institute, with a more streamlined and responsible governance model that will see the restructuring of our multiple committees;
- an improved website that better represents AIC in the public domain, while responding to the needs of members for easily accessed information;
- a revamped approach to our marketing and communications programs;
- a mandatory one-day professional practice seminar; and
- our new residential appraisal form.

None of this work would have been possible without the efforts of the other 14 directors that sit with me around the board table. I would like to commend them for their commitment to working together effectively, despite the fact that many of them began their terms only last spring. Of course, it also goes without saying that none of the work this association accomplishes would be possible without the countless hours of volunteer time our many national committee members selflessly contribute.

I would also like to sincerely thank our entire office staff – not only those who were hired this year, but especially the individuals who stayed on with the association and were called upon to perform above and beyond the requirements of their typical daily routines while the office operated well below staffing complement for many months. Thank you for your dedication to the AIC.

Finally, I would also like to recognize Keith Lancastle, our new CEO, who hit the ground running and never stopped after joining the AIC in September. His capable hands-on response, as he hired replacement office staff, worked with the board, maneuvered the complexities of the insurance program, and visited as many of our provincial associations as possible, deserves our appreciation.

Since the AIC was founded 74 years ago, the success of this organization has been dependent on the combined efforts of volunteers and staff. That has not changed. As we work to move this association into the future, we are fortunate indeed to be able to count on the talent and commitment of so many engaged individuals.

"As we work to move this association into the future, we are fortunate indeed to be able to count on the talent and commitment of so many engaged individuals. "

David Shum, AACI

Do they know what we do?

Play a little game the next time you are killing time at the airport. We have all experienced the hurry up and wait of airport security and flight delays. Often, this absorption of time takes on Twilight Zone qualities. The experiences range from things that cannot be unseen to the mundane act of coffee spilling due to a misplaced Tim Horton's lid. However, if asked to recount what happened between clearing security at 1 pm and your 5 pm departure time, the experiences often evaporate from memory.

During these moments (with an iPod providing a soundtrack for the simulation of life), select four people in the waiting area and let your inquisitive nature take over. What does that person do? Where are they going and why? Are they on a work trip or vacation? What is the probability that your answers are correct – 50/50 at best, 100% wrong is within the realm of possibility. Having said that, let's assume the other four people are playing the same game.

What is the probability that one of the players would guess your profession correctly: 50/50? Higher? Lower? Odds are likely to be at the lower end of the range. What are the chances that 'appraiser' makes the short list of possibilities? If I passed a cheat sheet to a player listing the qualities of an appraiser, what are the chances that one of the four players would have any idea what that refers to?

Now, let's change those 'players' to 'stakeholders' like lenders, government regulators, lawyers and the general public. Does the probability of a correct answer increase? By how much? What can the AIC do to increase those odds?

Both the Marketing & Communications and Government Relations committees are tasked with increasing the probability that AIC stakeholders can identify an appraiser, not by appearance, but by what appraisers do and how they contribute. Would a cheat sheet for stakeholders help? What qualities define our members and how do we effectively convey that message to our stakeholders?

From the national association level to the individual level, collectively and individually, we need to assess our qualities and skills against the changing market needs of our stakeholders. How do we convey our message to stakeholders in a manner that gets past the superficial glance at an airport and gets to the contribution appraisers can make? There are a multitude of possibilities and the solutions require input from all facets of our membership. At the end of the game, if we can get a meaningful increase in the probability of stakeholder recognition, the airport player's odds will be as trivial as the time spent at the airport lounge.

"How do we convey our message to stakeholders in a manner that gets to the contribution appraisers can make?"

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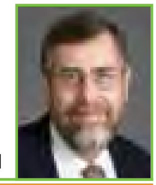
MESSAGE DU PRÉSIDENT

Michael Mendela, AACI



Notre transformation pour le mieux se poursuit

Lorsque vous lirez ces lignes, l'Institut canadien des évaluateurs (ICÉ) en sera aux étapes finales de la préparation de sa conférence annuelle et de son Assemblée générale annuelle (AGA) qui se tiendront en juin à Ottawa. Durant l'AGA, je cèderai mon poste de président au très compétent David Shum. Cette transition devrait se faire en douceur à mesure que David poursuit son travail auprès du Conseil et des comités pour assurer que les changements convoités à mon arrivée comme président se poursuivent. Il peut sembler cliché de dire que cette année s'est envolée rapidement, mais c'est de cette façon que ce sont déroulés les 12 derniers mois. Ce fut une année marquée par la transformation compte tenu des efforts que nous déployons pour adapter et améliorer cette association dans les meilleurs intérêts de ses membres. Ce n'est que lorsque nous avons quitté Winnipeg que nous avons connu autant de changements dans la dotation et de nouvelles initiatives. En voici quelques-unes qui ont certes marqué cette évolution :

> *« Tournés vers l'avenir, nous sommes fortunés de pouvoir compter sur le talent et l'engagement de tant de gens aussi dévoués. »*

- un programme d'assurance restructuré et fondé sur l'évaluation des risques plutôt qu'un programme général tel que c'est le cas actuellement;
- une nouvelle structure opérationnelle pour l'Institut, dotée d'un modèle de gouvernance plus rationalisé et responsable qui fera aussi appel à la restructuration de nos multiples comités;
- un site Web amélioré qui représente davantage l'ICÉ dans le secteur public tout en répondant aux besoins des membres en matière d'accès facile à l'information;
- une nouvelle approche aux programmes de communication et de marketing;
- un séminaire obligatoire d'un jour sur la pratique professionnelle; et
- notre nouveau formulaire d'évaluation résidentielle.

Ces réalisations n'auraient pu être possibles sans les efforts des 14 autres administrateurs qui siègent avec moi à la table du Conseil. Je profite donc de cette occasion pour faire l'éloge de leur engagement à collaborer efficacement en dépit du fait que plusieurs ont entrepris leur mandat au printemps dernier seulement. Bien entendu, il va sans dire que le travail accompli par l'association ne pourrait l'être sans les nombreuses heures que consacrent également les membres bénévoles de nos nombreux comités nationaux.

Je veux remercier très sincèrement l'ensemble du personnel de notre bureau, non seulement ceux qui ont été engagés cette année, mais surtout ceux et celles qui sont resté(e)s au service de l'association et qui ont tenu le coup même lorsque plusieurs postes sont demeurés libres pendant plusieurs mois. Merci pour votre dévouement à l'endroit de l'ICÉ.

Enfin, je veux aussi faire mention de Keith Lancastle, notre nouveau chef de la direction, qui s'est joint à la course et n'a jamais cessé de courir depuis qu'il s'est joint à l'ICÉ en septembre. Son travail compétent et pratique lorsqu'il a engagé de nouveaux membres du personnel, son étroite collaboration avec le Conseil, sa façon de traiter les complexités du programme d'assurance et ses nombreuses visites aux associations provinciales méritent certes notre appréciation.

Depuis la création de l'ICÉ il y a 74 ans, le succès de l'organisme a toujours été proportionnel aux efforts du personnel et des bénévoles. Les choses n'ont pas changé aujourd'hui. Tournés vers l'avenir, nous sommes fortunés de pouvoir compter sur le talent et l'engagement de tant de gens aussi dévoués.

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David Shum, AACI

Savent-ils ce que nous faisons?

La prochaine fois que vous attendrez à l'aéroport, faites un petit test. Nous avons tous connu l'empressement de franchir la sécurité et les vols retardés à l'aéroport. Souvent, cette perte de temps nous donne un sentiment d'incertitude. L'expérience peut aller de choses qu'on ne peut cacher au déversement d'un café en raison d'un couvercle mal fermé. Toutefois, si l'on vous demande ce qui s'est passé après avoir franchi la sécurité à 13 h jusqu'à votre départ à 17 h, ces petites expériences semblent être oubliées.

Durant ces périodes d'attente (avec un iPod qui procure une simulation de vie), choisissez quatre personnes dans la zone d'attente et cédez aux caprices de votre imagination. Que fait cette personne dans la vie? Est-elle en vacances ou en voyage d'affaires? Quelle est la probabilité que vos réponses soient exactes – 50-50 tout au plus. Être dans l'erreur à 100 % est aussi possible. Ceci étant dit, disons que les quatre autres personnes jouent le même jeu.

Dans quelle mesure est-il probable que l'un des joueurs devine votre profession correctement : 50-50? Plus? Moins? En toute probabilité, sa réponse sera probablement à l'extrémité inférieure de l'échelle. Quelles sont les chances que le mot « évaluateur » fasse partie des possibilités? Si je distribue un aide-mémoire à un joueur énumérant les qualités d'un évaluateur, quelles sont les chances que l'un des joueurs sache de quoi il s'agit?

Maintenant, remplaçons ces joueurs par des intervenants comme les prêteurs, les régies gouvernementales, les avocats et le grand public. La probabilité d'une bonne réponse augmente-t-elle? De combien? Que peut faire l'ICÉ pour accroître ces chances?

Le Comités du marketing et des communications et le Comité des relations gouvernementales sont chargés de faire croître la probabilité que les intervenants de l'ICÉ puissent identifier un évaluateur, non pas par son apparence, mais plutôt par ce qu'il fait et ce qu'il contribue. Un aide-mémoire pour les intervenants serait-il utile? Quelles sont les qualités qui définissent nos membres et comment transmettre ce message efficacement à nos intervenants?

Du niveau national de l'association jusqu'au niveau des particuliers, collectivement et individuellement, nous devons évaluer nos qualités et nos compétences par rapport aux besoins changeants du marché de nos intervenants. Comment pouvons-nous transmettre notre message aux intervenants d'une façon qui n'est pas superficielle comme à l'aéroport, mais qui reflète vraiment ce que font les évaluateurs? Cela peut être accompli de plusieurs façons et les solutions doivent venir de nos membres à tous les paliers. À la fin du jeu, si la probabilité d'une reconnaissance par les intervenants augmente, les chances du joueur à l'aéroport seront aussi futiles que le temps passé à attendre dans le salon d'un aéroport.

« Comment pouvons-nous transmettre notre message aux intervenants d'une façon qui reflète vraiment ce que font les évaluateurs? »

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Bob Thompson, AACI

Specialization and diversification work hand-in-hand

Farmers know that a mixed use operation can protect them from fluctuations in the economy. When the value of wheat drops, they can rely on their oilseeds. If the cost of working the land increases, they might derive more profit from their livestock operation.

This is the kind of farm on which Bob Thompson, AACI was born and raised. Throughout his career, he has applied this same approach to his appraisal practice, creating a careful balance of diversification and specialization that continues to serve him well.

"Your toolbox should have different tools," says Thompson. "You should try to organize your practice so that you are busy at all different points in the economic cycle." He notes that some aspects of his practice are more active in a down cycle, while others become active when the economy picks up.

For instance, during the mid-1980s recession, Thompson was busy helping farmers address issues such as debt, assets, liabilities, and cash flow, and advising them on modifications that might make their operations more economically viable. Today, he is more focused on expropriations related to the development of highways and reservoirs on agricultural land.

The common thread is the nature of the properties involved. "It is all related to rural issues," explains Thompson. "When we get a call to do an appraisal in an urban area, we refer the caller to someone else."

Growing up on a farm in southern Alberta just outside of Calgary, the appraiser learned about agriculture from an early age. Along with cultivating canola, wheat and barley, the mixed use operation produced calves for Alberta feedlots. Thompson received his first cow when he was six years old.

While he was studying agriculture at the University of Alberta, Thompson developed an interest in land value and how it related to farming. Then, in his fourth year, potential employers came to campus to meet with students. One of the presenters was an agrologist who also had his AACI designation. He told the class: "Anyone who is interested in combining farming with cash flow from a career standpoint should consider appraisal work." It was something Thompson never forgot.

After graduation, he accepted a position in the marketing department of Imperial Oil's Fertilizer and Fuels Division. But, the job would be short lived. In 1977, when a former university professor called him about an employment opportunity in the agricultural consulting and appraisal division at Deloitte and Touche, Thompson jumped at the opportunity. Since then, he has never turned back.

During his seven years working with Deloitte's rural consulting arm in both Edmonton and Calgary, Thompson completed a Masters in Agricultural Economics and his AACI appraisal

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accreditation – all while raising two young children with his high school sweetheart, who he had married a few years before. He remembers when, having finished his graduate studies and AACI, he realized that it was the first evening in years that he had nothing planned. "I did not know what to do with myself," he laughs.

Soon, he had plenty to keep him busy. In 1984, Thompson left Deloitte to found AFC Agra Services Ltd. He also continued his family's cow/calf operation 15 km from his ancestral home and 35 km from Calgary.

Commuting to the city, he tackled a wide variety of rural consulting and valuation work, including market value appraisals and high level mediation on complex property matters for brokers and financial institutions. For the latter, he relied heavily on his agricultural economics background. The firm grew steadily, encompassing up to a half dozen appraisers and two to three real estate brokers, depending on demand.

Thompson also became involved in appraising conservation easements. Environment Canada has a program whereby individuals receive a tax receipt for donating a gift of land to a qualified recipient organization that is trying to preserve ecologically sensitive areas. An appraisal is necessary in order to determine the amount of the tax receipt.

"Your toolbox should have different tools. You should try to organize your practice so that you are busy at all different points in the economic cycle."

In fact, when he was in graduate school, Thompson wrote his thesis on the impact of easements on agricultural land value. When the idea of conservation easements caught on in Canada, Public Works in Edmonton contacted Thompson to ask him if he would write a course for appraisers on calculating land values for that purpose. "We put that on for Alberta, Saskatchewan and Manitoba," he recalls. The model was then applied in Ontario, the Maritimes and British Columbia.

At the same time, Thompson became increasingly involved in matters involving expropriation for highways and reservoirs for irrigation, municipal water supply, recreation or mixed use. For this work, he performed appraisals for lawyers representing either the government or the landowner.

It was not long after the founding of AFC Agra Services Ltd. that a young Calgary lawyer named Jim Prentice came to Thompson with a novel

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idea. "He told me: 'You give us the same answer, no matter who you are retained by,'" he recalls. "And I told him: 'That is exactly what appraisers are supposed to do, tell you objectively what they think.'" The lawyers then asked Thompson if he would accept working for *both* the crown and the landowner, to arrive at a proposal for compensation. This is what the appraiser has been doing ever since.

Thompson uses a phased approach to address the issue. In the first phase, he collects facts by talking to the government and the landowner, and looking at the operation. The firm then prepares a preliminary report describing the facts, including the impact of the highway or reservoir on the operation. "We have meetings with everyone to ensure we have everything right," explains Thompson. "Then, we describe how we see the compensation going. But, we do not have any compensation numbers. "

In the next phase, Thompson and his team quantify both market value and damages. They then present the report to both parties for further input. "I have done a hundred of these and there is only one that did not get resolved with this process," says Thompson. "The key is to take small steps. If each party's expectations are very different, it is better to address and resolve one issue at a time before moving onto the next." The government likes the process because it is less costly. The farmers appreciate it because there is no pressure for them to argue their point of view. They know the appraisal report will be neutral and fair.

When Jim Prentice was asked to co-chair the Indian Claims Commission, he brought the process with him. At the same time, Thompson had also become involved in First Nations land claims. Over the years, Dallas Maynard, an appraisal colleague in Edmonton, had reviewed several of Thompson's appraisals related to expropriations. "He kept telling me that we did not have enough appraisers involved in doing First Nations valuation work," recalls Thompson. "When I first started doing it, the work only

"When we are out doing an appraisal, there is a certain level of trust if you can relate to the farmer and he can relate to you."

involved appraisals. Now, I am doing some consulting as well."

Sometimes when he was doing First Nations work, economic issues would come up. At times, he has been retained jointly by the federal government and different First Nations groups to analyze issues from an economic perspective related to compensation on claims for treaty rights. For this work, he is part of a team of historians, lawyers and other professionals. "The team changes depending on what part of the country you are in and what issues exist," notes Thompson. In the past, he has travelled to BC, Alberta, Saskatchewan and Manitoba to perform First Nations appraisal and consulting work, although, lately, the work has taken him mainly to Ontario.

But, these days, while he still travels across the country, he is no longer commuting to Calgary for work. In 2005, he sold AFC Agra Services Ltd., in order to relocate his appraisal business to a home office. "When I moved home, one of my sons, who has a degree in economics from the University of Calgary, indicated that he wanted to get involved in the appraisal field," notes Thompson.

Like his father, Jeff Thompson splits his time between the appraisal business and helping manage the family's 2,000-acre farm, which still includes a cow/calf operation. "We do not fatten the calves," notes Thompson. "We sell them in the fall and they go to a feedlot." The Thompsons also hire a number of people to do the seeding, spraying and combining on their land.

Nonetheless, agriculture continues to be an important part of everything they do. Recently, Jeff – who worked on a 20,000 feed-lot after high school – noticed a lame cow while he was conducting a ranch appraisal. It was an opportunity for him to share his insight and background.

"All of a sudden, Jeff had instant credibility with the rancher," recalls his father, adding. "When we are out doing an appraisal, there is a certain level of trust if you can relate to the farmer and he can relate to you."

After almost 35 years in the appraisal industry, Thompson is still very passionate about his work and its many possibilities. "I enjoy trying to apply our training to create a positive outcome that resolves a problem," he explains. "I get tremendous satisfaction when folks are happy that we have been able to address their issues."

Nonetheless, he is slowing down, taking more time to "enjoy the cottonwoods" outside his front door. These days, Thompson rarely brokers real estate, unless it is a particularly large ranch. Likewise, he is no longer active with the Alberta Institute of Agrologists or the Appraisal Institute of Canada (AIC) – where he was involved with the Professional Liability Insurance Program for five years – although he and his wife still try to attend the national conference every year.

As his role in the industry winds down, he is only too pleased to pass the torch to Jeff, who completed his AACI in the spring of 2011. He knows that, with his accreditation and his diverse experience in agriculture, appraisal and consulting, his son will continue to grow the family business, while enjoying a fruitful and fulfilling career.

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HIGHEST & BEST USE ANALYSIS

BY ROBERT TIPPLE, AACI, FELLOW

We all know what highest and best use is – or at least we know enough to think of it as 'maximum potential use.' Of course, there is a process to be followed, but this is not about the process – this is about the analysis, which is part of the process.

We sometimes tend to think of the highest and best use in terms of current use and that can lead us to form a conclusion that might be 'inconclusive' to the client. An example of this would be a 40-year-old former 'gas station' – the ones that used to be common – with fueling pumps outside and two or three vehicle repair bays inside. It may well be that, for physical, economic and environmental reasons, continuation as a 'gas station' may no longer be the highest and best use of this property. However, are we providing the best advice to our client if we conclude that demolition of the building and redevelopment of the site is the highest and best use? That may be so, but not necessarily, since many of these properties remediate the contaminated sites, retain the buildings and renovate them so that they have a new life as convenience stores and/or fast food takeouts (usually service stations were in great locations).

What about a 50-year-old neighbourhood supermarket that looks tired inside and out, its heating, electrical and A/C systems are totally out of date, and the parking lot is decrepit. Should the building be demolished and the site redeveloped 'as permitted by current zoning?' Maybe, but maybe not. It is usually outside the scope of an appraisal to complete a cost/benefit analysis that compares refurbishing a building to the cost of new construction. But, consideration should at least be given to informing the client that there are options. By the way, that 50-year-old tired supermarket is now a modern and attractive office building.

Another example would be a fairly large national chain auto repair garage that became the victim of the shift in retail from being near residential areas to being within 'big box' areas. It is easy to quickly conclude that, if a national chain decided that this property is no longer suitable for its retail use, the property is ready for a change in use from retail. Again, maybe so, but for one thing, retail is one of many forms of commercial use and we likely do not have the information to conclude that retail is or is not a highest and best use. Therefore, we should avoid using the term 'retail,' and instead use the more generic term 'commercial.'

Second, we should not be unduly influenced by one property user, even if that user is very well known and established.

Third, we should consider all the factors which affect highest and best use – physical, legal, economic – and inform the client that, subject to cost, the subject property may have alternate uses, possibly alternate commercial uses, but, potentially, other types of use depending on zoning and permitted uses. It may even be that the current use is a legal non-conforming use and, if so, this should definitely be identified and addressed so that the client is fully informed.

"It is usually outside the scope of an appraisal to complete a cost/benefit analysis that compares refurbishing a building to the cost of new construction. But, consideration should at least be given to informing the client that there are options."

What happened to that former repair garage? Using the existing building steel frame, it was totally refurbished into three separate rental spaces, each occupied by national companies, none of them having anything at all to do with vehicle repair.

The above are only three examples that should make us think carefully and be thorough in our analysis of highest and best use. It is this analysis that clients seek in our valuation reports. So, how can we provide a more meaningful analysis that will better serve our clients?

When we are completing our inspection of the property, be diligent, because the information we are obtaining on-site is important and forms part of the basis for our highest and best use analysis and conclusions.

When writing our report, specifically the property description section, state the relevance of what is being described, rather than simply providing a factual description. Clients are relying on us to inform them of what we are thinking.

Use the description section of our report to provide the basis for the highest and best use section. 'Connect' them. For example, the condition of the building and the location of the property, as stated in the description section, should be among the physical factors referred to in the highest and best use analysis.

Remind ourselves that highest and best use is a very important component of our report in that it effectively determines the property being appraised and forms the basis for its valuation. That is to say, is the property a tired building that has reached the end of its physical life, regardless of other factors, or is it a tired building that has adaptive use potential?

Clearly address highest and best use of **both** the site as-if-vacant and highest and best use of the improved property. The benefit of our report to the client is that it provides our opinion of the 'maximum potential use' of both the site and the improved property based on a combination of factual information, our knowledge and our experience.

"Highest and best use is critical to the number, or range of numbers, which we refer to as 'value' at the end of our report."

When completing our analysis, specifically consider physical, legal and economic factors as they relate to the property being appraised. This includes the usual description and condition of the property, as well as zoning and permitted uses. But, equally important are local market development trends, demographics, rental rates, costs of construction, costs of renovation, availability of financing and others.

Above are three examples that should make us think carefully and be thorough in our analysis of highest and best use. To our profession, these are the technical issues that are part of the work we are trained to do, but, to our clients, the analysis of these factors is the essence of what they seek in our appraisal reports. It is the value – pardon the pun – of our reports to the clients, many of whom (e.g., lenders or out-of-town investors) may not have seen the properties and are relying on us to provide the analysis they require for important decision-making. Highest and best use is critical to the number, or range of numbers, which we refer to as 'value' at the end of our report.

About the author

Robert Tipple, AACI, Fellow (Retired) is a long-time member of the Appraisal Institute of Canada who served as an AIC Board member and as Director for NL. He retired from private practice in 2010, but has continued to contribute to AIC as a member of the Nominating Committee and as a peer reviewer.

Underwriter risk requirements versus good appraisal practice

The conflict and how to address it

This article is reprinted with permission from INPUT *magazine published by the Real Estate Institute of British Columbia (Volume 40 Number 1).*

By Daniel Jones, AACI

Mortgage underwriting in Canada is the process a lender uses to determine if the risk of offering a mortgage loan to a borrower under certain parameters is acceptable. To help the underwriter assess the quality of the loan, banks and lenders create guidelines and even computer models that analyze the various aspects of the mortgage and provide recommendations regarding the risks involved.

Property appraisal is an important component in the loan assessment process. The most common tool used for risk management is the appraisal report, particularly key areas of the report such as the remaining economic life and condition of the property. For example, underwriters may match up a loan's amortization period with the remaining economic life estimates from the property appraisal to make sure the life of the property is longer than the life of the loan. The appraiser's description of the condition or quality of a certain aspect of a property may raise a red flag to the underwriter if the condition is rated 'poor' rather than 'good,' as it may represent a risk to the lender.

Automated underwriting has streamlined the mortgage process by providing analysis of credit and loan terms in minutes rather than days. For borrowers, it reduces the amount of documentation needed and may even require no documentation of employment, income, assets,

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or even the value of the property. Automated underwriting tailors the amount of necessary documentation in proportion to the risk of the loan. It is more common to see the use of such automated valuation models (AVMs) when the underwriting is looking to low loan-to-value ratios. However, it is still always up to the underwriter to make the final decision on whether to approve or decline a loan.

Appraisal is key to high-risk loans

When the underwriter or lender determines that the loan-to-value ratio is higher and thus has an increased risk, a full appraisal report is required. The appraisal report is completed by a qualified appraiser, sent out to view and assess the subject property, undertaking a full and complete appraisal report describing in writing everything from the city and neighbourhood demographics and local city bylaws to the more direct description of the land being considered for collateral and the residence or building that is affixed to the land.

Many lenders in Canada, including banks, credit unions, trust companies and brokerage houses, utilize the services of an appraisal management company (AMC). The AMC performs independent appraisal services, thereby removing any direct link between appraiser, applicant, and the lending party. The many services AMCs provide also include underwriting services and risk management on the loans handed out by financial institutions. The appraiser today must also be aware that many of the new AMCs now scan or mine information from uploaded appraisal reports to provide lenders with additional risk management tools that help underwriters make the most prudent decisions they can when deciding on a loan application.

Experienced appraisers find themselves having to be cognizant of each lending institution's Terms of Reference—the document describing the minimum content requirements of the appraisal report and the characteristics of comparable sales used to determine a final estimate of value. For example, a common Terms of Reference (TOR) includes:

- photographs of all interior rooms of the dwelling;
- maps depicting the subject property and comparable sales relied upon in the appraisal report;, both of which are long-establishesal
- photos of the fronting street looking both ways, the front and rear of the dwelling, and rear yard views;
- complete description of any internal influences regarding quality and condition and a full inventory of what is inside the dwelling;
- comments regarding floor plan, sizes, and any positive or negative impacts found by the appraiser; and
- comments on any external influences which may affect the property value, noted clearly and then accounted for in the final valuation.

Where the conflict lies

The above are just a few examples of TOR requirements provided by financial institutions to structure appraisal reports. The high standards are generally in concert with the standards practiced by BC appraisers who follow *Canadian Uniform Standards of Professional Appraisal Practice (CUSPAP)* and in reality meet the lender's TOR most of the time. However, appraisers sometimes find themselves in conflict with good appraisal practice when they are asked by a lender's TOR to meet certain underwriting requirements. Examples of this conflict occur where the following criteria are asked for, but the

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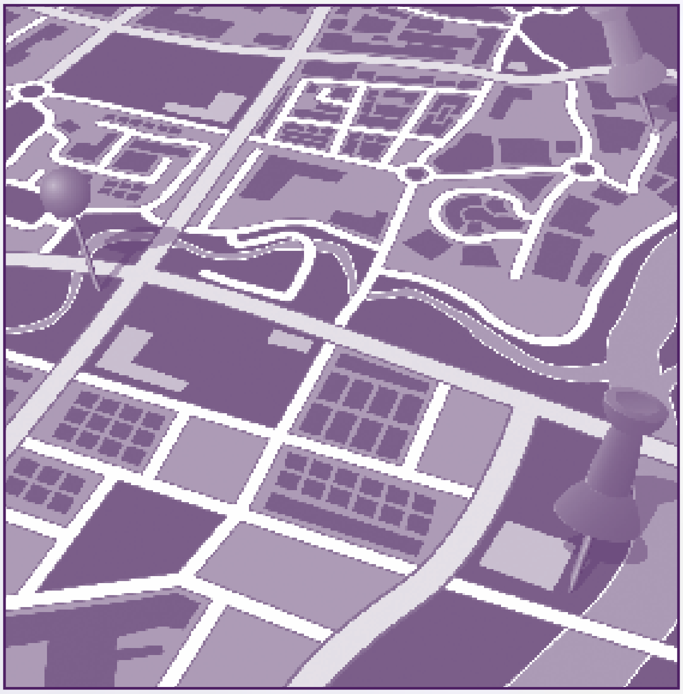

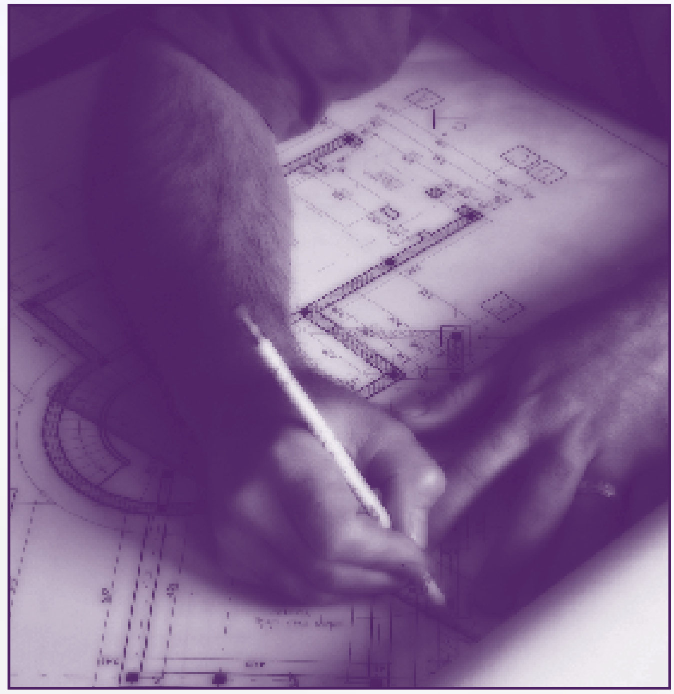

appraiser finds that the best sale comparables do not meet these criteria:

- sale comparables used by the appraiser should not exceed 20–25% of the net adjusted amount or the sale price after all adjustments;
- land value of the subject property should not exceed 25% of the total market value;
- appraised value should be bracketed by unadjusted comparable sales of which one is below the appraised value and at least one is higher than the appraised value;
- comparable sales used to support the appraised value should not have occurred longer than 90 days since the date of appraisal;
- seven-year sale and listing history of the subject property is to be included in the report (three years is standard and is a requirement of *CUSPAP* that is used by most appraisal firms); and
- sales of all homes on the same street as the subject property over the past year (not a *CUSPAP* requirement).

Many of the above TOR requirements find their way into the appraiser's report during strong economic cycles in urban areas where high volumes of real estate are being consumed with high demand and adequate supply. The more homogeneous the real estate is and the more volume of that type of property there is in the marketplace, the easier it is for the appraiser to meet the lender's underwriting criteria.

An example of an appraiser finding that he or she is in conflict with TOR requirements would be when dealing with a unique or out-of-the-box property, especially during a slower real estate market. The more unique a property, the more conflict there is with the appraiser attempting to meet the underwriter's requirements while at the same time producing a report that employs best practices by using the very best sale comparables from a real estate point of view and not a financial risk point of view.

How to solve the conflict

The usual approach our appraisal firm takes to mitigate such conflict uses three steps. First, we gain an intimate understanding of the TOR of each lender. This is necessary because lenders vary in their TOR requirements depending on what type of lending they perform. Second, we find the very best comparables (from a real estate appraisal point of view) for the first three sale comparables selected. Third, we select the next three comparables to meet the underwriting requirements. This way, the appraiser can satisfy the lender and *CUSPAP* requirements and ultimately provide the most professional appraisal report possible.

Appraisers today must not only be experts in the real estate they appraise, but also must be on top of the latest in risk rules and underwriting requirements that vary from lender to lender. Appraisers who strive to achieve this professional balance will find that they are achieving best practices that satisfy not only their professional association, but also the lender and the general public as well.

About the author

Daniel Jones, AACI is President of Campbell & Pound Residential Appraisals Ltd. and the majority shareholder/partner of Campbell & Pound Commercial, both of which are long-established appraisal and real estate consulting firms serving BC's Lower Mainland, Sea to Sky Corridor and Fraser Valley since 1939.

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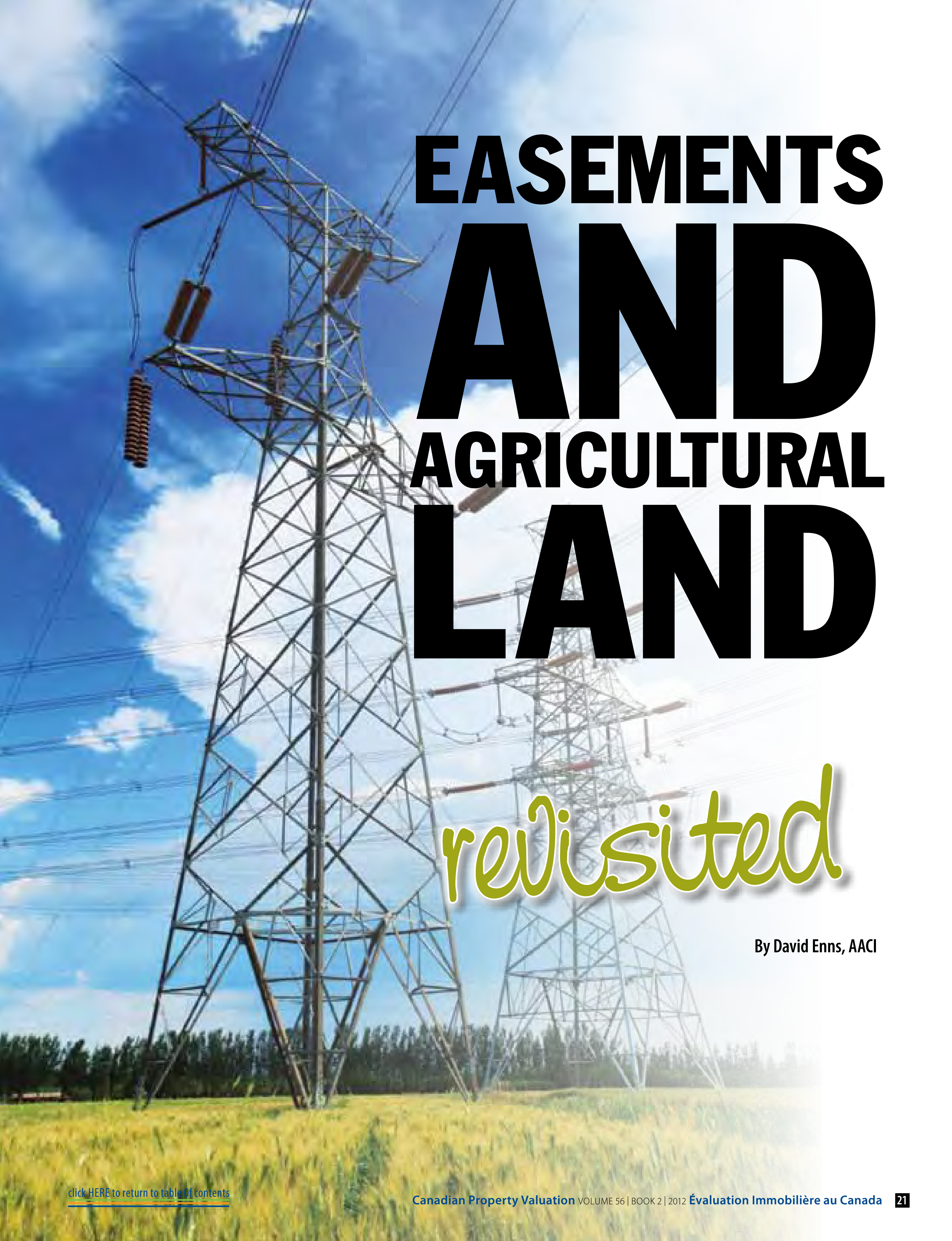
EASEMENTS AND AGRICULTURAL LAND *revisited*

By David Enns, AACI



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EASEMENTS AND RIGHT-OF-WAYS

Easements represent an interest in real property that is less than fee simple ownership. An easement is defined as a right acquired by an individual (or a group or a corporation) to use someone else's land for a special or particular purpose. While they can be created for a number of reasons, they often involve pipelines, pole lines, or drainage ditches. A right-of-way is a particular type of easement that grants an individual (or a group) the right or the privilege to pass over the land of another. Usually, but not always, the right-of-way (as with other easements), takes the form of a strip of land with clearly defined boundaries.[1]

Easements can certainly impact property values. A single easement or several easements over a tract of land can limit or eliminate the choice of building sites and, thus, have a negative affect on a property's market value. Easements for pipelines and power lines can be contencious, for reasons far beyond a right of use, as we saw with Canada's proposed Keystone pipeline running through Nebraska.

PHOTOCOPY OF THE AERIAL PHOTO

Parcels 1 and 2 have frontage on their east side, along the same travelled road, and parcel 1 also has frontage on the north side. Parcels 2 and 3 have frontage on a travelled road between them. Parcels 3 and 5 are separated by an abandoned rail line. The approximate location of the power line is shown by the orange dotted line.

Image is courtesy of Google Earth ©.

Our interest here, however, is the effect on the market value of farmland that is subject to an easement. Property owners are compensated for the loss of rights associated with the granting of an easement, but do they really affect the market value of such a property?

BACKGROUND

Some time ago, an article was published in *Canadian Appraiser* magazine that dealt with the issue of power line and pipeline easements and their effect on the market value of agricultural farmland.[2]

In that article, it was observed that, if these easements were to negatively affect market value at the time of easement acquisition, then they should do so at the time of resale. If that is the case, then apprasiers should make adjustments when conducting appraisals on properties that are subject to such easements. Indeed, Appraisal Standard Rule 6.2.9 of *CUSPAP* requires that appraisers consider the effect of easements, as they might affect market value.[3]

One conclusion in that article, based on a number of sales of farmland in Lancaster Township (Glengarry County, Ont.), was that vacant farmland subject to such easements does not suffer a negative effect on market value.

The method used to support that conclusion was an examination of sales of vacant (tile drained) farmland both with and without such easements.

PAIRED SALES AND MARKET EVIDENCE

In a perfect world, a generous number of paired sales[4] would be the best market evidence to draw such a conclusion, however, the sales used in that study were not truly 'paired sales.' Paired sales involve the sale of two properties whose characteristics are highly similar. The only difference between them is the passage of time. Paired sales can also be used to support other adjustments, if there are sales of two properties at the same time whose characteristics are highly similar except for one feature. The difference in sale price would be attributable to the different feature (such as soil type or location). Generally, the market needs to be active (a large number of sales) and also deep (a high degree of similarity among properties) to find paired sales. This is certainly not true of agricultural markets and many other markets.

As an aside, in a proper mathematical sense, the appraiser needs one more comparable sale than the number of adjustments being made.[5] This fact is often ignored in discussions about paired sales, but the reason is obvious on reflection. If an identical property (to the subject) had just sold at almost the same time as the effective date (hence no time adjustment was required), no adjustment would be warranted to that comparable to reflect the market value of the subject. If another almost identical property had also just sold but had one different feature (say building age), then the different feature would explain the different sale price and, of course, it would support the adjustment for the difference in age. Now we have two sales and one adjustment. For yet another adjustment, another paired sale is required and so on.

In our investigation of easements and farmland, while we have found a number of sales of similar parcels of farmland, with and without such easements, selling for similar amounts per acre (the benchmark for agricultural farmland), none have been truly paired sales. For example, in Finch Township (about 50 kilometres southeast of Ottawa) in early 2010, we investigated a sale of 200 acres of farmland that sold for $1,000,000 or $5,000/acre. We recorded the sale with the following notation:

"This Index represents the sale of vacant farmland (the worked area was tiled at the time of purchase). The cash crop purchaser was adding to his holdings, but did not reside or own farmland in the immediate area. Based on a review of the soil map for Stormont County, the soil is a mixture of Wolford loam and Carp clay loam. The land base was all clear, there

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were no buildings or bush, and there was one field. The property was subject to a power line easement (there is one steel transmission tower on this property). This sale was discussed with the buyer."

There were a few sales of farmland in Finch Township in that year that would support the conclusion that the powerline easement had no effect on the market value of the farmland. However, none of these sales was a paired sale. There would always be some factor that could have affected the sale price. Perhaps the 'other' farmland, although it sold for a similar price per acre without an easement, was a different soil type, or it was tile drained, or the purchaser owned adjacent farmland (and paid a premium for location) and on and on.

THE SALE

In early 2011, in a rural area in Eastern Ontario, the author investigated a sale of about 259 acres of farmland, including some brush areas, that sold for $1,830,000 (registered 04/29/2011). While there were a total of five parts (5 PINs), the five parcels were in three groups separated by a travelled road and a former rail line. This separation can be seen in the accompanying aerial photo. The sale was registered under two documents for the stated total amount of $1,830,000. While the overall price was about $7,000/acre, it is inappropriate to use that benchmark for each parcel because there was some brush on two of the five properties (parcels 4 and 5), and one of the properties with some brush cover also required tile drainage work (parcel 5). As an aside, since the date of the sale, all of the brush has been removed and all of the tile work has been completed.

LAND USE CONTROLS AND HIGHEST AND BEST USE

All of the land was designated as being in an Agricultural Resource Area under the appropriate official plan, and it was also zoned as agricultural. It had been rented and used as farmland for a number of years, and, although near Ottawa, it was not close to a village or a built up urban area for there to be a speculative interest in the property at this time. Accordingly, in terms of legal constraints and also highest and best use, the five properties were identical. Given the definition of highest and best use,[6] it is appropriate at this point to ask if the highest and best use of this property is farmland. The answer is yes, without question.

SERVICES

While services might impact the value of farmland, usually this is not a factor because of the lower order intensity of use. With the exception of parcel 5, the services, such as electrical power, were idential (although not required at the time). Parcel 5, which was not under

PARCELS 1 TO 5 – THE LAND BASE AND SITE IMPROVEMENTS

Parcel no.	Acres +/- Cult.	Uncult.	Present use	Topography	Soil type	No. of fields	Tiled acres	Nature of easement	Estimated sale price per acre
1	76		Crops	Level	Castor fine sandy loam	1	76	Power line + tower	$7,375
2	53		Crops	Level	Castor fine sandy loam	2	53	Power line	$7,375
3	62		Crops	Level	Castor fine sandy loam	3	62	None	$7,375
4		8	Bush	Level	Castor fine sandy loam	-	-	None	$5,275*
5	53	7	Crops Bush	Level	Castor fine sandy loam	3	See note below	None	$6,475* $5,275*
Total acres	**244 + 15 = 259**							**Total sale price (rounded)**	**$1,830,000**

Note: The colour coded cells represent differences among the parcels (namely the two areas with easements).

*The adjustment for the non-tiled portion (the 53 acres of parcel 5 that needed to be retiled) is based on the current cost to tile of about $900/acre. The adustment to clear the brush and then tile drain the 15 acres (parcels 4 and 5) is based on an estimated cost of about $2,100/acre ($1,200/acre to clear and clean the brush and about $900/acre to then tile the land). These adjustments for the cost to tile and clear brush reflect about $79,000. Prior to the purchase, the buyer estimated the cost to be about $70,000.

This price per acre allocation differs from the total allocation as recorded in the registry office since the recorded allocation was made for 'other' purposes and does not reflect the true nature of the land base.

consideration as part of a paired sale, had no frontage on a road, and it had no electricity.

THE VENDOR, PURCHASER, AND OWNERSHIP

If one examines the two transfer instruments, the properties appear to have sold from different parties to different purchasers, however, as is sometimes the case with sales, this does not tell the whole story. The negotiations for the sale took place between two individuals, and although registered otherwise, the purchaser and the vendor, for all intents and purposes, were the same.[7] This is seldom the case with paired sales, and it usually goes unoticed because the emphasis is on the properties and not on the vendors or on the purchasers.[8]

PARCEL CHARACTERISTICS

Easements

Our interest is in parcels 1, 2, and 3 because parcels 1 and 2 were crossed by an easement for a 230,000-volt powerline, while parcel 3 was not crossed by a powerline and was not subject to any easement. Parcel 1 had a single steel transmission tower, while parcel 2 was also crossed by the same power line but had no tower.

In all other aspects, parcels 1, 2, and 3 were almost identical as described below.

Soil characteristics

Differences in soil types (these differences can range from clay through loam to sandy soils) can influence soil productivity (both input costs and yields) and, therefore, influence the market value of farmland. Heavy clay soils are more costly to work while lighter sandy soils are easier work but will generally require more fertilizer.

The soil was identical on all of these parcels and was a Castor fine sandy loam. This is a stone-free soil and is considered to be a class 2 soil under the Soil Capability for Agriculture Index.[9] Accordingly, parcels 1, 2, and 3 were identical in this important aspect. Parcels 4 and 5 also had this same soil type.

Site improvements

Tile drainage allows earlier planting, and it also results in warmer soil. As with all soil types, the soil type found on these parcels (Castor very fine sandy loam) needs tile drainage for best crop production. All of parcels 1, 2, and 3 were tile drained with systematic tile at 40′ spacing, making them identical in this important aspect. Parcel 4 was covered with brush and parcel 5 had some brush cover, and while it had some random tile drainage, it needed to be retiled.

Topography

While farmland is often level, some farmland is hilly. While this difference could be reflected in the market value, more often than not, it is reflected in the soil type (hilly areas usually reflect a soil with a stone component that farmers wish to avoid). Parcels 1, 2, and 3 were identical in terms of topography and were level parcels. Parcels 4 and 5 were also level.

Parcel size

Differences in parcel size can add to or detract from the marketability of farmland, and it is difficult to definitively predict the effect this might have on market value. Less costly (in an overall sense), small parcels can be added to an expanding farm operation in the immediate area, but they lack appeal to an expanding operation located some distance away. A larger parcel, although more costly to purchase because of its size, would appeal to a more distant farm operation in need of more farmland because the economies of its larger size might offset some of the extra travel costs.

Parcels 1, 2, and 3, although not identical, were quite similar in size (76 acres, 53 acres, and 62 acres). Since farmland sells on a per acre basis, there is no known market data that would suggest that these different sizes would warrant different prices on a per acre basis.

Parcel shape

Most farms in Southern Ontario were laid out in rectangular configurations, and, as a result, fields generally follow that same general pattern being either square or rectangular.

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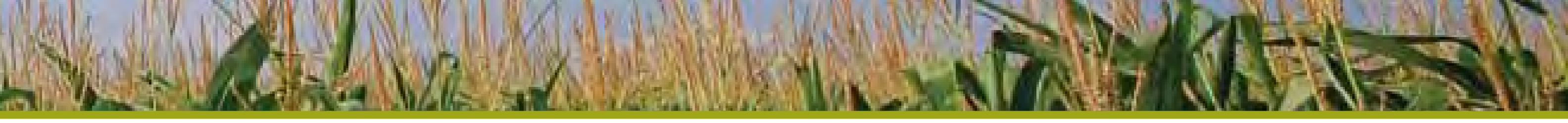

Exceptions might occur because of natural features, such as streams, ponds, or forced roads. In one instance, for example, I encountered a sitution where an irregular parcel sold for about 10% less because a drainage ditch crossed the middle of a property and created two triangular fields.

Parcels 1, 2, and 3, however, were remarkably similar in shape.

Number of fields

In light of the ever increasing size of field machinery, cash crop farmers like large fields, as there is less time wasted in turning.

Although not identical in terms of the number of fields (and hence field size), the field size was still quite similar on these parcels. Parcel 1 had one field, parcel 2 had two fields and parcel 3 had three fields at the time of sale. Indeed, with very minimal work, parcel 2 could also be made into one field, and parcel 3 could be made into two fields by removing two fencelines.

Location

Often farmers will pay a premium for farmland because of a close location to their home operation. In one recent instance, a farm operation near Winchester, ON paid about 40% above the market for some additional farmland that was already surrounded on three sides by its existing farmland base.

While no two properties can have an identical location (each property is unique in space), parcels 1, 2, and 3 are also almost identical in terms of their location. Parcels 1 and 2 are adjacent to one another, and parcel 3 is across a road from parcels 1 and 2. The purchaser was not adjacent to any of these parcels and was, in fact, located about 10 kilometres away so that the location of one parcel relative to the others had no bearing on the purchase price.

Road frontage

The amount of road frontage is not significant in terms of pricing farmland, as long as there is reasonable access for field machinery. Even seasonal roads (on a non-maintained road allowance) can be acceptable for access, and, in fact, quiet rural roads are preferred to busy roads. Parcels 1, 2, and 3 had some frontage on a travelled (rural) road and would be considered as being identical in this regard.

THE NEARLY 'PERFECT' PAIRED SALE

Given this demonstrated high degree of similarity among the three properties (parcels 1, 2, and 3), it seems reasonable to consider them as paired sales. For all intents and purposes, the three parcels are nearly identical in terms of soil type, tile drainage, topography, field shape, field size, and location. Certainly, they are identical in terms of the attributes that impact on market value, and they all sold for the same price per acre.

They do differ in that two are subject to a power line easement (parcels 1 and 2) and one was not (parcel 3), however, they showed no difference in sale price.

CONCLUSIONS

These sales support the conclusion that farmland, subject to this type of easement, does not suffer a change in market value. Once the easement is in place, it seems to be minimized. Based on this sales analysis, the inconvenience of having to work around a tower, such as the one on parcel 1, does not appear to influence the market value of the surrounding farmland.

Just as one sale does not make a market, one 'perfect' paired sale is not conclusive for all such easments. But in this instance, it supports the conclusion that no adjustment for such easements would be warranted in appraising farmland until we have other market evidence to the contrary.

Of course, within a farming area that is subject to some urban influence, this conclusion might be different if there was a potential for a change in land use to a higher order, and an easement of this nature was hindering such a change.

ENDNOTES:

1 See *Principles of Right of Way Acquisition,* The American Right of Way Association, 1972, pp. 27-28 (a right-of-way can be over a whole property and not just a portion)

2 J. D. Enns, AACI, *Easements and Agricultural Land Values,* The Canadian Appraiser, Fall 2000, pp. 22-25

3 See Appraisal Standard Rule 6.2.9 *CUSPAP 2011 Edition,* and Appraisal Standard – Comments 7.10, Characteristics of the Property, 7.10.1v "any known or apparent title restrictions, easements."

4 See Appraisal Institute of Canada, *Use of Comparables Bulletin CP – 17,* March 1996, p. 3.

5 R. H. Zerbst, *A Caution on the Adjustment of Comparable Sales,* The Real Estate Appraiser, November, December 1977.

6 A property's present use will more likely represent highest and best use in a stable market than in a transitional market. The highest and best use has also been defined as 'the most probable use.

7 Two of the parcels sold from an individual (A) to a couple (B), while three of the parcels sold from a couple (that included individual A) to a limited company (C). The two purchasers (B) of parcel 1 and 5, however, also owned the limited company (C – the other purchaser) that purchased parcels 2, 3, and 4. As indicated, the negotiations for the sale took place between two individuals so that the purchaser for all five parcels was really the same and the vendor for all five parcels was also the same.

8 For some paired sales, the purchaser can become the vendor on a resale, but usually they are different parties with perhaps different motivations giving rise to some doubt about the validity of this tool.

9 See Soil Capability For Agriculture, Canada Land Inventory, Ottawa 31 G, Department of the Environment, 1967. The index ranges from 1 to 7 where Class 1 soil has no significant limitations in terms of crop use to Class 7 soil that has no capability for arable culture or permanent pasture.

ABOUT THE AUTHOR

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GROUND LEASES:
rent reset valuation issues (PART I)

By Tony Sevelka, AACI

NOTE: A complete version of this article, including both Part I and Part II can be viewed on the Appraisal Institute of Canada website at *http://www.aicanada.ca/cmsPage.aspx?id=168*

While there are recognized and well-established valuation methods and techniques, the application of a particular valuation procedure to resolve a ground lease problem is always a function of the language contained in the ground lease – in particular, the rent reset clause – and any constraints imposed by the quality and quantity of available market data. Problem identification always starts with a thorough reading of the lease, paying particular attention to relevant provisions, definitions, and descriptions of terms essential to the valuation process.

All opinions of value involve some aspect of real estate law. In specialized areas, such as ground lease valuation, an awareness of relevant case law is paramount in developing and applying appropriate valuation methods. A basic understanding of contract law and an ability to interpret various legal documents, including leases, are important. Appraisal assignments involving potential arbitration and litigation often require the guidance of legal counsel. Conflicting interpretations of lease provisions at the time of rent review often lead to divergent and irreconcilable opinions of value, and resolution of a ground lease valuation dispute may require the court's intervention and guidance.

Ground leases

A ground lease is an enforceable contract that creates a lessor's interest and a lessee's interest in a legally defined parcel of land, where virtually all of the incidents of ownership are transferred from the landowner to the lessee for the entire term of the ground lease. The landowner retains the reversionary interest in the land realizable upon expiration of the ground lease. The lessor's interest is known as the 'leased fee' interest, while the tenant's interest is referred to as the 'leasehold' interest. Both the lessor and the lessee enjoy rights and privileges and are subject to obligations and restrictions, as agreed upon and spelled out in the executed ground lease, and which the courts strictly interpret.

A ground lease is variously defined as follows:

- a lease of vacant land, or land exclusive of any buildings on it, or unimproved real property – usually a net lease;[1]
- usually a long-term lease of land with the lessee permitted to improve or build on the land and to enjoy those benefits for the term of the lease;[2] or
- a lease that grants the right to use and occupy land. Improvements made by the ground lessee typically revert to the ground lessor at the end of the lease term.[3]

Aside from the financial benefits available to the landowner for entering into a long-term lease, there must be sufficient financial incentive (reward) for a prospective lessee (developer) to commit time, effort, and capital into undertaking site and building improvements, and marketing the finished product, if the developer is not an end user. The lease term must be of a sufficient length so the prospective lessee (developer) can amortize or recapture his or her investment. Moreover, the term of the ground lease must be of sufficient length to allow the lessee (developer) to obtain third-party leasehold mortgage financing on terms and conditions that make the proposed development financially feasible and to accommodate sub-tenant occupancy leases. Sometimes, the length of the ground lease is tied to the expected economic life of the proposed leasehold improvements.

A leasehold interest in unimproved land is less valuable than the corresponding freehold interest in the same land. Likewise, a 99-year lease will have a value much higher than a 40-year lease, relative to the freehold value of the same land. The degree of relativity, expressed as a percentage of the freehold value, will vary between one type of property and another and from area to area, with the predominant factor being the length of the

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term, especially in a mortgage-dependent market. Over time, the value of a leasehold position gets progressively less as the lease approaches the expiration date, when the income from existing or future sub-tenant occupancies ceases and the land (including existing leasehold improvements) reverts to the freeholder (landowner).[4]

Rent reset clauses

Rent reset clauses provide the mechanism to adjust the ground rent payable by the lessee at predetermined intervals throughout the life of a long-term ground lease. In *Basingstoke and Deane Borough Council v. Host Group Ltd.*,[5] the court describes the mechanism and objective of rent review clauses, and the role of the appraiser:

The means by which rent review clauses afford landlords relief in respect of increases in property values or falls in the value of money is by providing, normally, for a valuer, in default of agreement, to assess the up-to-date rent for the demised premises at successive review dates. In making that assessment, the valuer will be achieving the intended purpose of keeping the rent in line with current property values, having regard to the current value of money if, but only if, he assesses the up-to-date rent on the same terms (other than as to the quantum of rent) as the terms still subsisting between the parties under the actual, existing lease.

Nonetheless, the parties to a ground lease are free to deviate from reality and structure a rent reset clause in any manner they deem appropriate, even if the basis for determining rent bears no relationship to what has actually been leased or to any of the other subsisting clauses in the ground lease, including the remaining term of the lease.[6] Also, there is no prescribed length of time between rent reviews, which largely depends on the length of the overall term of the ground lease. Generally, ground leases with terms less than 40 years have scheduled rental payments established at the commencement of the lease that cover the entire term of the ground lease.

Development on leased land for which ground rents have not been predetermined is difficult to finance. Ground rent payments, unless specifically subordinated, take priority over any mortgage payments associated with leasehold improvements. Unless ground rents are fixed throughout the term of the ground lease, the mortgage lender has no practical way of protecting its financial interest against unanticipated spikes in future ground rent payments that may overwhelm the earning capacity of the leasehold improvements and cause the lessee to default on the ground lease, putting the leasehold mortgagee at financial risk. Many lenders refuse to underwrite loans for leasehold improvements unless the ground rent has been prepaid or the amount of ground rent can be reasonably ascertained throughout the entire term of the ground lease and sustained by the potential income generated from sub-tenant occupancies.

Leasehold mortgagees are extremely cautious and apply conservative underwriting standards that typically require repayment of self-liquidating mortgage loans at least 10 years before the expiration of the existing lease term. Leases whose unexpired terms are less than 20 years are generally not considered suitable for mortgage financing. Leasehold mortgages, as commercial mortgage-backed securities, also carry greater financial risk.

Amortization of the costs of leasehold improvements requires that the ground lease be of a sufficient length for the lessee (developer) to recover his or her entire investment in the leasehold improvements while in possession of the land, which will revert to the landowner upon expiration of the ground lease. Depending on the use of the land and scale of development, amortization of major leasehold improvements, in most instances, will require a minimum of 40 years to permit the lessee (developer) to recover the investment and facilitate leasehold mortgage financing; most long-term leases run 50 to 99 years. Low-order uses, such as gas stations and fast food outlets with low floor area ratios (FARs), may only require a 20-year ground lease.

Highest and best use[7]

A rent reset clause may instruct an appraiser to ignore both the improvements and the lease itself, valuing the land in fee simple and as if unencumbered and available for ground-up development in perpetuity. This type of rent reset clause facilitates an unrestricted highest and best use analysis,[8] which may or may not result in the highest or most probable ground rent at the time the rent is to be reset.

A restricted highest and best use analysis flowing from the provisions of a lease that dictate a specific or limited number of uses (which may or may not be legally permissible under the land use controls prevailing at the date of the rent review) can result in rental payments that are either lower or higher than those achievable, based on an unrestricted highest and best use analysis. Similarly, where a lease dictates scale of development either less than or greater than permitted under the provisions of the prevailing land use controls, it too leads to a restricted highest and best use analysis, and can result in rental payments that are lower or higher than those achievable based on an unrestricted highest and best use analysis.

A rent reset clause that fails to specifically state that the lease itself is to be ignored imposes time constraints on the investment horizon, resulting in a restricted highest and best use analysis. The length of time remaining on the lease, including any extension of the lease term exercisable at the

> **"The parties to a ground lease are free to deviate from reality and structure a rent reset clause in any manner they deem appropriate."**

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> “Sufficient market demand is a precursor of highest and best use analysis in the context of financial feasibility of a particular use and scale of development that has passed the initial tests of legal permissibility and physical possibility.”

discretion of the tenant at the time of the rent review, may cause some or all of the uses permitted under the prevailing land use controls or those strictly dictated by the lease to be financially infeasible for ground-up development. This results in rental payments lower than those achievable, based on an unrestricted highest and best use analysis. In this sense, a ground lease is similar to a space lease, whose length of occupancy available to the tenant is determined by the term of the lease. In defining a ground lease valuation problem in the context of highest and best use, the most critical and interrelated issues confronting the appraiser are as follows:

- the identification of what is to be appraised (i.e., land only or land and improvements), based on a thorough reading of the lease or as instructed by legal counsel;
- the constraints of the lease, if any, imposed on highest and best use analysis, to determine whether the valuation is of the fee simple interest or of the estate for years,[9] reflecting the period remaining on the lease at the time of the rent review;
- the legally permissible use(s) governed by the prevailing land use controls or the use(s) dictated by the language of the lease;
- the scale of development legally permissible pursuant to the provisions of the prevailing land use controls or the scale of development dictated by the language of the lease;
- the physical constraints of the land, if any, imposed on the scale of development either legally permissible or dictated by the language of the lease;
- the remaining term of the lease, including any renewal options exercisable at the discretion of the lessee; and
- the marketability and financial feasibility of the legally permissible use(s) or the use(s) dictated by the language of the lease, and achievable in the context of the remaining term of the lease, including any renewal options available to the lessee.

Market analysis

Through supply and demand analysis, the appraiser identifies and tests the level of market support for legally permissible and physically possible uses, while recognizing any restrictions or constraints imposed by the lease. Sufficient market demand is a precursor of highest and best use analysis in the context of financial feasibility of a particular use and scale of development that has passed the initial tests of legal permissibility and physical possibility.

For example, in *Michelson*,[10] insufficient demand for office space rendered the hypothetical development of an office tower on the leased land unfeasible at the date of the rent review, reinforcing the critical role of supply and demand in highest and best use analysis. The ground lease was for a term of 55 years, with the rent scheduled to be reset initially at the end of the 25th year of the lease term. The lease provided as follows:

Upon the expiration of the twenty-fifth (25th) year ... of the term of this lease, the basic rental shall be adjusted to that sum which the lessor could derive from said property if it were made available on the open market for new leasing purposes for ... [office] use (exclusive of the value of lessee’s improvements thereon);

On the date of the first rent review, the remainder of the initial lease term was 30 years, with the parties reaching consensus on the following issues:

The parties agree the lease requires the rent adjustment, ‘if any,’ to be decided on the basis of a valuation of a hypothetical transaction. ... First, it must be imagined the improvements to the property do not exist, because the rent for the property must be determined ‘exclusive of the value of lessee’s improvements thereon.’ Second, the relevant question is the market valuation of a new 55-year ground lease in 2002, with the same terms and conditions as those contained in the original ground lease (other than an adjustment of dates). This interpretation follows from the lease’s directive to adjust the rent based on making the property available ‘on the open market for new leasing purposes....’ Neither party contends the lease demands a valuation of a 30-year ground lease (the remainder of the actual term), which would presumably reduce the value of the leasehold. The parties stipulate that the only permitted use of the property in 2002 was for an office building similar in size to the building actually in existence.

The rent adjustment clause called for an estimate of basic rent, but as no provision in the lease instructed the appraisers to assume a 55-year term, application of land residual analysis should have reflected an economic life of 30 years for the hypothetical leasehold improvements, consistent with the remaining term of the lease. The court considered what was the appropriate valuation methodology and what assumptions were appropriate in applying that methodology to the ground lease at issue.

In *Michelson,* the landowner’s appraiser relied on a land residual analysis as a check against the freehold land value estimate derived from the sales comparison approach. The lessee’s appraiser relied on land residual analysis solely to demonstrate a lack of financial feasibility stemming from a lack of demand for office space, a position supported by an absence of any new office development and an extremely high office vacancy rate in the local market. The appeals court upheld the trial court’s ruling that no increase in basic rent was warranted:

We agree with Michelson that ... [its appraiser’s] approach measures the economic feasibility of the ground lease transaction proposed in the rent adjustment provision. We further agree that the court was entitled to rely on a measurement of economic feasibility as a prerequisite to the assumption

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that a ground lease transaction would actually be consummated on the 'open market.'. . . [I]n the statement of facts, the cap rate used by the experts in calculating the feasibility of a ground lease at the property is issue determinative.... The lease calls for an upward adjustment of rent if the rent that could be derived exceeds $88,165. Using [the landowner's appraiser's] cost ($13,497,000) and NOI (ignoring ground rent, $1,525,838) assumptions, the margin for paying ground rent gradually evaporates upon increases in the assumed [building] cap rate:

Cap Rate (R_B)	Feasibility Income to Support Residual Construction Costs	Ground Rent
8.25%	$1,113,502	$412,336
9%	$1,214,730	$311,108
9.70%	$1,309,209	$216,629
10%	$1,349,700	$176,138
11%	$1,484,670	$41,168
15%	$2,024,550	-$498,712

[The lessee's appraiser's] methodology does not directly determine market rent; it determines whether sufficient income would be generated to make the deal rational for both the ground lessor and ground lessee.

END NOTES

1 *Black's Law Dictionary,* Centennial Ed. (1891–1991), 6th ed., 704.

2 International Valuation Standards (IVS) Glossary, in Appraisal Institute, *Dictionary of Real Estate Appraisal,* 5th ed. (Chicago: Appraisal Institute, 2010), 249.

3 *Dictionary of Real Estate Appraisal,* 92.

4 In Canada, the Central Mortgage and Housing Corporation (CMHC) considers a 60-year land lease intended to accommodate residential use as being equivalent to 75% of the value of outright ownership. See, http://www.cmhc-schl.gc.ca/en/inpr/afhoce/tore/afhoid/fite/lale/lale_001.cfm. Research conducted by Capozza and Sick indicated that 80-year to 90-year prepaid land leases with single-family dwellings in the Salish Park area of the City of Vancouver, Canada, sold for a 20% to 40% discount from comparable fee-simple properties in the adjacent Dunbar and Kerrisdale areas. See "Valuing Long-Term Leases: The Option to Redevelop," *Journal of Real Estate Finance and Economics* 4 (1991): 209.

5 *Basingstoke and Deane Borough Council v. Host Group Ltd.,* [1988] 1 WLR 348, 56 P&CR 31, 284 EG.

6 In *McDonalds Real Estate Ltd Liability Partnership v. Arundel Corporation,* [2008] 2 EGLR 53, [2008] EWHC 377 (Ch), McDonalds entered into a 50-year ground lease for a 1.3-acre site in 1985 for the purpose of developing its first drive-thru restaurant in the UK. The lease contains covenants to comply with the Planning Acts and to use the demised premises only as a restaurant, together with ancillary office accommodation, storage, staff facilities, and car-parking space in connection therewith, or for such other retail uses the landlord might authorize, such authority not to be unreasonably withheld or delayed. The rent is to be reset at five-year intervals throughout the term of the lease on the understanding that the second method of estimating market rent at each rent review is to assume a term of 20 years, regardless of the actual remaining term, and is to apply to both the land and a hypothetical "modern single-storey warehouse comprising 20,000 net useable square feet of which 15% were useable as ancillary offices and constructed to a high standard in accordance with all statutory and other relevant consents with all usual amenities, including adequate parking and loading facilities."

7 Whether highest and best use analysis of land is undertaken on an unrestricted or restricted basis, the highest and best use must still be legally permissible, physically possible, financially feasible, and maximally productive. Appraisal Institute, *The Appraisal of Real Estate,* 13th ed. (Chicago: Appraisal Institute, 2008), 278–279.

8 This is analogous to valuing a property as if vacant, unimproved, and unencumbered, and, in the absence of a jurisdictional exception, may require the appraiser to impose a hypothetical condition on the highest and best use analysis.

9 Also known as a 'tenancy for years,' and defined as "a leasehold interest in real estate established by a contract for possession for a specified period of time." *The Dictionary of Real Estate Appraisal,* 195.

10 *2151 Michelson, L.P., v. Corp. of The Presiding Bishop of The Church of Jesus Christ of Latter-Day Saints,* G039654, 2008 Cal. App. Unpub. LEXIS 10002.

WEB CONNECTIONS

The following Internet resources are suggested by the Y. T. and Louise Lee Lum Library:

- National Association of Realtors, Field Guide to Ground Leases *http://www.realtor.org/library/library/fg410*
- National Retail Properties Net Lease Exchange *http://www.nnnex.com/*
- NCREIF—database with valuation/lease data and transaction data *http://www.ncreif.org/data.aspx*
- Society of Industrial and Office Realtors *http://www.sior.com*

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By Simon J.H. Chin, AACI
Member, Marketing and Communications Committee

Candidates – *GET OUT THERE!*

Having been a Candidate myself and having watched others in the office, it is easy to understand the intricacy and struggles in obtaining the AACI or CRA designation, as with other professional accreditations.

Our time as Candidates is spent restlessly working during the days – learning and trying to absorb new concepts and information that is presented to us – while saving enough energy for our studies and personal commitments during the evenings, nights and weekends. Often, we are faced with the dilemma of choosing between staying late after work to finish our appraisal or heading to the library to complete our course assignments; thus, sacrificing some parts of our personal lives. As we juggle all of this, it is hard to imagine spending time on anything else.

However, with our industry undergoing a transformation, it is imperative now, more than ever, that all Candidates become more active and involved with their profession.

According to a recent study completed by the Appraisal Institute of Canada (AIC), over 60% of the existing AIC members with an AACI designation are over the age of 50 years, suggesting that a majority anticipate retiring within the next 10 to 15 years. This large percentage of future retirees definitely represents various opportunities and challenges, but, at the same time, it will undoubtedly change the face of our industry.

It is no longer acceptable for Candidates to remain status quo and take on a passive role. You are the future. Our profession is undergoing a change in leadership and branding, and it is important for all Candidates to take part in this. Candidates must challenge their current image and take an active role in promoting themselves as well as their profession. Only by actively engaging in this, can we expect our industry and, hence, your profession to grow and flourish.

> *"Candidates must challenge their current image and take an active role in promoting themselves as well as their profession."*

While it is not uncommon to feel uncomfortable about promoting yourself, due to a lack of confidence or a self-perceived sense of lack of knowledge and expertise, there are several methods for getting involved and promoting yourself:

- *Attending local luncheons, provincial meetings or national conferences* – These are great events at which to meet other Candidates and designated members in the industry. Moreover, the events usually include seminars or meetings, thus allowing you to partake in current issues related to the industry or the real estate market.
- *Volunteering with local, provincial or national committees* – This is another great way to meet your peers as well as other professionals in the real estate market, while also learning and contributing to the issues pertaining to your profession and the AIC. This is an excellent choice for those who want to be actively involved.
- *Attending local real estate forums and networking events* – This is a good opportunity to meet other professionals, although these events may require more interaction and self-promotion.
- *Volunteering with other organizations* – This is a great way to contribute to your community and, at the same time, promote yourself and your profession.
- *Doing good quality work and presenting oneself professionally* – Probably the simplest and best way of promoting oneself, there is no better way of promoting yourself than by providing good quality work in a timely fashion. Develop a good rapport with your clients, and always dress and act professionally and with integrity.

The face of our industry is changing and it is important that all Candidates are involved in this process. Candidates, get out there! Be involved and be the leaders of tomorrow. Your future depends on it.

Marketing & Communications Committee

Laura Kemp, CRA – Chair
Joanne Hayes, AACI
Kathleen Ellis, AACI
Lora Wylie, CRA
Simon Chin, AACI
Rick Colbourne, AACI – Board Liaison
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By Iain Hyslop, AACI
Chair, Standards Committee

The challenge of consulting assignments

Appraisers can bring a wealth of expertise to a wide ranging clientele. However, the broad category of consulting services is sometimes overlooked, while we focus on valuation assignments. The *Canadian Uniform Standards of Professional Appraisal Practice (CUSPAP)* (2.18) defines consulting as "the act or process of analysis of real estate data and recommendations or conclusions on diversified problems in real estate other than an appraisal or review assignment." Consulting Standard Comment (CSC) 11.1.1 elaborates on this definition to include land utilization studies, highest and best use analysis or research-related assignments, but the scope of consulting and research assignments can also include market rental studies, housing studies and technical project analyses.

Like appraisal work, following *CUSPAP* rules, comments and practice notes allows us to undertake professional consulting services for clientele ranging from all levels of government, private investors, and lenders, to non-profit bodies and private land holders, to name a few. Like appraisal work, Ethics Standard Comment 5.12 and Practice Note 12.9 impose the fundamental rule of competency, which must be the initial consideration prior to accepting a consulting assignment. The question to be asked is whether or not you have the training, required knowledge and experience to complete the assignment competently. If the answer is no, then the appraiser must take the necessary and appropriate steps to complete an assignment competently, including personal study by the appraiser, association with an appraiser reasonably believed to have the necessary knowledge or experience, or retention of others who possess the required knowledge and experience.

There are 14 consulting standard rules (CSR) and 12 appraisal standard rules. It is important to

review these and test your report for compliance before signing off. With respect to consulting, some of the standards are common to appraisal assignments (e.g., identifying the client, intended users, purpose, effective date), however, others such as assumptions and limiting conditions and the scope of work require extra due diligence to support the exclusions of any information or procedure that would appear to be relevant to the client, an intended user or the 'reasonable appraiser.'

Beyond the core standards are also the due diligence requirements imposed by CSRs 10.2.10 to 10.2.13, which refer to "collecting, verifying, reconciling and reporting all pertinent data as may be required to complete the consulting service." It is also important to note that, for circumstances where providing an opinion of value is necessary as part of a consulting assignment, Consulting Standard Comment 11.1.1 states that "if an appraisal is required within the consulting assignment, it must be developed under the Appraisal Standard."

Consulting standards comments also outline the requirements with respect to specific types of assignments such as:

- real property consulting (CSC 11.7),
- market analysis (CSC 11.8.1),
- cash flow/investment analysis (CSC 11.9.1),
- feasibility analysis (CSC 11.10.1), and
- reserve fund study (CSC 11.11).

All of the consulting standard rules and comments require some level of specialized appraisal knowledge and training. Before undertaking consulting assignments, appraisers should familiarize themselves with these standards. Educational programs are a must to ensure competency, and mentoring offers great learning and working opportunities with subject matter experts.

Standards Committee

Iain Hyslop, AACI – Chair
Chris Perret, AACI
David van der Vis, AACI
Paul Olscamp, AACI
Jayne Patterson, CRA
Greg Bennett, AACI – Board Liaison
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Canadian real estate cases of interest

Case:	***1556724 Ontario Inc. v. Bogart Corporation*** (Superior Court of Justice - Ontario).
Hearing date:	March 29, 2011.
Property:	A small take-out restaurant on Yonge Street, Toronto, Ontario.
Issues:	This case involves a tenant's application to the Court with respect to its option to renew under its lease. The landlord's position is that the tenant has materially breached the lease and, thus, they are not obligated to grant the renewal option.
Judgement:	Tenant's application dismissed.
Web link to case:	*http://www.canlii.org/en/on/onsc/doc/2011/2011onsc2204/2011onsc2204.html*

Case:	***Fairweather Ltd. v. Riocan Yec Holdings Inc.*** (Superior Court of Justice - Ontario).
Hearing date:	November 18, 2010.
Property:	A retail store at a shopping centre in Toronto, Ontario.
Issues:	This case involves the interpretation of a termination clause in the lease. The landlord exercised their rights under the Termination Clause in preparation to renovate the shopping centre, while the tenant applies that the circumstances do not warrant the Termination Clause to be exercised.
Judgement:	Court rules in favour of landlord.
Web link to case:	*http://www.canlii.org/en/on/onsc/doc/2010/2010onsc6445/2010onsc6445.html*

Case:	***CCS Corporation v. Assessor of Area #11 – Richmond/Delta*** (Property Assessment Appeal Board).
Hearing date:	December 23, 2011.
Property:	Industrial facility in Richmond, BC.
Issues:	This is a classification case involving the determination of Class 5 versus Class 6, particularly on the interpretation of 'products.'
Judgement:	Board rules in favour of appellant.
Web link to case:	*http://www.assessmentappeal.bc.ca/Decisions/Dfull/dec_2011-11-00046_20112707.asp*

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By Darrell Thorvaldson, AACI
Counsellor, Professional Practice

Responding to member questions

It is indeed a privilege to serve as Counsellor, Professional Practice and speak with members from coast to coast. After assuming this position in November 2011, I must give recognition to the years of dedication and hard work contributed by my predecessors, David F. Hildebrand AACI, Retired and Robert Patchett LL.B., CD. Moving forward into 2012, we all welcome Nathalie Roy-Patenaude, AACI to the position of Director-Professional Practice.

This is my opportunity to provide you with continual feedback and briefly summarize some of the questions and issues that our members have called about – everything from seeking out business practices to better serving our clients and ensuring compliance with the *Canadian Uniforms Standards of Professional Practice (CUSPAP).*

Advertising guidelines

Recent changes to *CUSPAP* 2012 have included rules on advertising. Please review Ethical Standard Comments 5.4 and, in particular, note 5.4.7.ix found on page 15 of *CUSPAP,* which makes it very clear that advertising using laudatory statements, superlatives or claims of superiority are not acceptable. Also, recent changes to the Consolidated Regulations allow the counsellor to act on advertising matters without need for a formal complaint. I have had to make more than a few telephone calls to advise members of this change and we are approaching a point in time where cautionary advice will no longer be issued. Please review your advertisements, including your website, for compliance.

Reserve fund studies

Condominium reserve fund studies are identified in *CUSPAP* (page 41) as being one of the consulting reports which AIC members can complete. Ethics Standard Comment 5.5.3 provides the types of properties for which CRA members can complete appraisal, review or consulting reports. It is important for all of our members to remember that AIC *Professional Excellence Bulletin* (PP-24-E) allows CRA members to complete any reserve fund study report that falls outside of the scope of the CRA designation, so long as it is co-signed with a qualified AACI member. Our competence provisions are detailed with Ethics Standard Comment 5.12. This matter was brought up at the recent Board of Directors meeting this past February in Ottawa and is being considered by both the Standards Committee and the Insurance Advisory Committee.

Form reports

The AIC has published a paper regarding suggested limiting conditions to be included when completing AMC forms. *http://www.aicanada.ca/images/content/docs/Limited_Liability_Clauses.pdf*

There is also an AMC resource page on the website which can be found at *http://www.aicanada.ca/members/cmsPage.aspx?id=283*

Hypothetical conditions

There are many different types of questions that members have in this area. One of the theme questions put forward by members revolves around a request to appraise a commercial property as if it were a single-family residential property. It is important to know that Appraisal Standard Rule 6.2.11 requires all appraisal reports to identify any hypothetical conditions. Further, Appraisal Standard Comment 7.12 provides excellent and detailed information that you must consider.

In particular, we all must be careful to contemplate the last sentence in Appraisal Standard Comment 7.12.5, which states that, "An analysis based on a hypothetical condition must not result in an appraisal report that is misleading." In other words, simply invoking a hypothetical condition does not preclude you from also meeting Ethics Standard Comment 5.2.1, which essentially states that AIC members must perform assignments ethically, objectively and competently in a meaningful manner in accordance with the Standards. Further, simply invoking a hypothetical condition does not preclude you from being in a position to explain how you have met Ethics Standard Comment 5.3.1, which clearly states that, "It is unethical for a member to develop, use or permit others to use, for any purpose, any report which the member knows **or ought to know** is misleading."

Please ensure that you carefully consider Ethics Standard Rules related to qualifications (Ethics Standard Rule 4.2.6 and Ethics Standard Comment 5.5) and competence (Ethics Standard Rule 4.2.7 and Ethics Standard Comment 5.12).

The reasonableness, appropriateness and imminence of the surrounding valuation factors with any hypothetical condition must be contemplated and explained in your report. (See Ethics Standard Rule 4.2.3).

We all have to remember that Standard Rules and Standard Comments are requirements in your reports and govern your activities as AIC members.

As professionals, we recognize that matters of professional practice are embedded in our day-to-day business operations. The professionalism of our members defines the AIC brand and one of my and Nathalie's priorities will be to continue contacting members by telephone to initiate open communication and respectful relationships moving forward.

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By Peter Lawrek, AACI
Member, Appeal Committee

Terms of Reference for an appraisal

A proper Terms of Reference for an appraisal report can help avoid appraisals that are not completely appropriate for the particular situation. Quite often, the clients (owners or buyers) are not quite sure what they need and even lenders are unsure, especially those with limited experience.

Examples include:

1) An appraisal is requested of an office building or warehouse that is extremely large for the local market. It is occupied by the owner and the owner is the client.

The appraiser should ask if the appraisal will be based on a sale with a lease back or on the building being sold as vacant. The value could be quite different when an extremely large building is sold as vacant compared to fully occupied.

2) A client asks for an appraisal of a convenience store. The client owns the free standing building, but does not know how to value the property and the business.

A separate appraisal for the land and building would be the preferred option since that is the value the lender understands best and can more easily mortgage. A separate value of the fixtures and equipment could perhaps be done by a company that sells new and used items of this type.

A separate value of the business, (which would include the fixtures and equipment) can be done based on the income and expenses and allowing a rent expense for the building. Depreciation and debt service are not included as expenses. Quite often, once all the expenses are totalled (including a realistic wage for the owner/manager's time spent), there is little or no net income to capitalize, which results in no business value other than the fixtures and equipment.

Appraisers must remember that there is no AIC insurance coverage for business valuations where no real estate is included in the value, and this lack of insurance coverage must be prominently noted in any such report. Appraisers should give careful thought to determining if they are qualified to do a business valuation.

3) There are two partners in a commercial development with several freestanding buildings. One of the partners wants to build a restaurant building and would like to get a separate mortgage on the building rather than have the developer provide a turnkey finished restaurant.

The mortgage lender who had the mortgage on the development was unsure how this could be done, since a small business loan was not enough money to build the restaurant. The lender was searching for ways to finance this restaurant and wondered how it could be appraised. The appraiser suggested an acre of land be subdivided out of the big parcel and a land lease be created with the annual rent based on 10% of the value of the one acre. Since a title was created, the same lender could provide a mortgage on the leasehold title. The mortgage on the real estate development could also be larger due to the higher income created by the land lease.

4) A developer buys a property which was a former college and is slowly leasing out space as an office complex which includes a leased restaurant. There is also a 1,000 seat theatre and approximately 150 dormitory rooms. The developer intends to run the theatre as a business operation and

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"Clearly explaining these aspects of the assignment in the report will also assist greatly in limiting the possibility that the report could mislead a reader and thus lead to potential insurance or standards-related problems."

use the 150 dormitory rooms like a motel business, with room rates that include meals which the restaurant will provide.

Instead of trying to mix a real estate appraisal with two business operations, the appraiser suggests applying a market rent for the theatre and the dormitory rooms. The developer then decides he will create two new companies. One will rent the theatre and then run it as a business. The other company will rent the dormitories and run it like a business. The mortgage lender is pleased with this approach since it is now known that it is real estate being mortgaged and not business operations. The appraisal is based strictly on leases.

5) The mortgage lender asks the appraiser to appraise a building where the owner runs a business centre with numerous small month-to-month tenants and the owner provides office services such as telephone answering, faxing, photocopying and secretarial. The owner and inexperienced lender think the appraisal will be based on the income and expenses of the business centre.

The appraiser points out that the land and building have a certain value based on the typical rent per square foot for buildings of this type. Using the rent paid to the business centre, less the operating expenses, to establish net income would result in a value that includes the business centre value and not just the real estate. The lender then agrees the appraisal will be based on market rent for office space of this type with no business centre rental rates used.

Conclusion

Appraisers should not always assume the client and lender know the ideal procedure. Appraisers should make the effort to discuss the Terms of Reference with the client and the lender to agree on a procedure that best fits the situation.

The *Canadian Uniform Standards of Professional Appraisal Practice (CUSPAP)* requires that the appraiser design an appropriate scope of work to address the intended use of the report. A better understanding of the client's intended use is a critical first step in the process. Clearly explaining these aspects of the assignment in the report will also assist greatly in limiting the possibility that the report could mislead a reader and thus lead to potential insurance or standards-related problems.

Appeal Committee

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John Shevchuk, Associate
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By Debbie Bermont
(www.outrageousbusinessgrowth.com)

Seven reasons to say "NO" to new business

If your company is dependent on larger fees from fewer customers, you could put yourself at financial risk by taking on the wrong customer. One of the most common mistakes business owners make is to accept money from anyone who is willing to pay for their service – even if the customer is not the ideal fit for their business. Whether your company is in the startup stage or is well established, taking on a new customer who does not match your ideal customer profile can be a big mistake. Here are seven situations that indicate you should say ***no*** to new business.

#1: Your gut instinct says no.

This reason is at the top of the list. Your *gut instinct* or intuition is the most powerful weapon you own that is always correct. . .even if it is not always a logical thought. You should never ignore a nagging feeling something is not right. When you hear that little voice inside telling you to turn away the new business, you should follow it or you could regret your decision later. Here is a common scenario that raises the *gut instinct* red flag. You are involved in a new business meeting and everything on the surface seems to be going well, but you cannot ignore a sinking feeling in the pit of your stomach. You can't put your finger on it, but you know something is not right. Then your head gets in the way. Your rational voice talks you out of those feelings and instead you dismiss your instincts as ridiculous, so you take on the new customer. Ultimately, that customer does not pay his or her bill or makes unreasonable demands that take away any profits you could make on the deal. You then realize you should have listened to your original *gut instinct.*

Sometimes, there does not have to be a logical explanation why you do not trust the situation. Just remember that, if you get that inner message, do not let financial motives sway you from your first impression. Your *gut instinct* is the best resource you have. Listen to it at all times.

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#2: The customer does not appreciate the value of what you offer.

While some people make decisions based upon price, the most profitable business for your company will be from customers who appreciate the *value* of what you offer. *Value* could include your expertise, credibility, service, knowledge, reliability, and guarantee. Anybody who selects your company based on price alone views you as a commodity, not a valued service. A disloyal customer who is more concerned with price rather than *value* will readily switch to any competitor who undercuts your price. Your chances are greatly diminished for repeat business from a customer who does not appreciate the *value* of your services.

#3: The customer expects you to invest time and resources into pursuing his or her business without making any financial commitment.

Anyone who is shopping around and looking for free advice is not going to be a good customer. You should determine how much time and energy you are willing to spend for free before you ask the prospect to make a commitment. Giving away services for free before the prospect makes any financial commitment diminishes the value of your company. It also raises the level of what he or she expects you to deliver beyond what you would normally offer for a specific price, because something has already been provided by you for free.

#4: The customer does not treat you in a courteous or professional manner.

Profitable business is based on strong relationships between you and your customer. This does not mean your customer has to be your best friend, but, in essence, your best customers will be those who respect and value your professionalism. Anybody who constantly questions your recommendations, nit-picks at your pricing, or questions your credibility or judgement, is not interested in developing a long-term relationship with your business. There is no opportunity for trust here. Your business is being viewed as a commodity and the customer is clearly showing that he or she does not value your business or want to establish a long-term relationship.

#5: The customer asks for services you do not provide.

There are times when someone will approach your business for services you already provide and also request additional services you do not already provide. He or she values your relationship and asks if you would be willing to venture out into new opportunities. If this new opportunity is a stretch on your capital resources or your existing operational structure, or is not congruent with the mission of your company, it is best to decline this business. Before you instantly accept a new challenge and opportunity, make sure it will not stretch your resources and develop into more headaches than successes for your company.

#6: The customer's requests are too large for your operation.

If a company approaches you to provide services that stretch beyond your current capabilities, consider the cost to expand your operation versus the profit potential. Take into account any additional employees, training expenses, and material costs, as well as other business lost while you are meeting the needs of this new customer. Controlled growth for your company is more manageable and, typically, more profitable than a large increase in business within a short timeframe, if you are not currently set up to manage that quick growth.

#7: The customer does not share the same values as you.

The right customer for you is someone who shares your values. By the manner in which the customer treats you, it will be very apparent whether or not you share common values. Do not lose sight of your company's mission and values, even if it means turning down potential business. When you compromise your values to pick up new business, it will not result in profitable business for your company in the long run.

About the author

Debbie Bermont is president of Source Communications, a marketing consulting firm. Debbie is a leading expert on helping businesses reduce their marketing costs and accelerate their sales growth. For more information go to *www.outrageousbusinessgrowth.com*

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By Jeff Godfrey, AACI
Strand & Godfrey Appraisals Ltd., Castlegar, BC

Using simple regression analysis – a strong case for taking that stats course

Several years ago, I was asked to value a lakefront residential lot. I gathered all of the lakefront sales from the previous three years and a few current listings. During the course of investigating the sales, a realtor commented about the typical prices per front foot for lakefront lots in our area. This was the second time in a year that I had heard a market participant use price/front foot for lake front lots. I was going to render my sales data into price/acre and I started to wonder if I was going about this in the wrong way.

I had been using spreadsheets ever since I moved from residential forms to narrative appraisals. They were effective for keeping track of adjustments and, as long as there were no errors in my formulas, they were accurate and much faster than simple text tables and calculators. So, I decided to rank the sale data first by ascending lot area, then by ascending front footage. If I first adjusted all data for the usual criteria of time, and then for locational and physical differences between the data and the subject (topography, access, services, beach quality etc.), I could calculate the adjusted price/front foot and the adjusted price/acre and see if there were patterns. Maybe price/front foot was the most appropriate way to measure and compare lake front lot values. In my tables, it looked like some kind of pattern was emerging for one of the units of comparison, but visualizing the form of the pattern by staring at the numbers was difficult.

I knew that I should be able to graph these sale data somehow, to show adjusted price/front foot vs. front footage and adjusted price/acre vs. lot size. After some experimenting, I was able to produce basic scatter plots. Immediately, the differences between the two charts were obvious and very revealing. One scatter plot gave a relatively uniform pattern in the shape of a curve. The other pattern looked random. Visually, it became apparent that the adjusted price/acre comparison was likely far more meaningful.

That answered the question of what unit of measurement I should use, but here is where the analysis became interesting. After creating the scatter plot, I was trying to format it. If you right click on a data point in a scatter plot in Excel, the 'add trendline' command appears. Interesting, I thought; a line that shows a trend – this could be useful. That was an understatement.

Adding a trendline is done by some hefty, behind-the-scenes computing. Excel (and other

Table 1 – Ascending lot size

Comp	Sale Date	Sale Price	Area (Ac)	Fr. Ft.	Adj'd $/Ac
1	Active	$125,000	0.42	211	$297,619
2	9/19/01	$104,000	0.43	125	$288,222
3	4/1/03	$249,500	0.66	119	$151,212
4	8/27/01	$252,500	0.68	200	$445,588
5	Active	$166,900	0.74	95	$226,152
6	5/15/03	$225,000	1.00	119	$225,000
7	8/4/00	$153,500	1.05	170	$102,333
8	05/31/03	$140,000	1.10	170	$127,273
9	Active	$194,000	1.47	190	$131,973
10	09/10/02	$87,000	1.81	170	$100,939
11	06/13/02	$200,000	1.90	275	$115,789
12	Active	$320,000	2.63	237.9	$121,766
13	06/19/2003	$160,000	4.37	203	$47,597
14	11/9/03	$190,000	5.93	240	$41,653
15	12/8/02	$425,000	10.22	280	$31,189

Table 2 - Ascending lot frontage

Comp	Sale Date	Sale Price	Area (Ac)	Fr. Ft.	Adj'd $/Ac
5	Active	$166,900	0.74	95	$1,757
3	4/1/03	$249,500	0.66	119	$839
6	5/15/03	$225,000	1.00	119	$1,891
2	9/19/01	$104,000	0.43	125	$998
7	8/4/00	$153,500	1.05	170	$632
8	05/31/03	$140,000	1.10	170	$824
10	09/10/02	$87,000	1.81	170	$1,075
9	Active	$194,000	1.47	190	$1,021
4	8/27/01	$252,500	0.68	200	$1,515
13	06/19/2003	$160,000	4.37	203	$1,025
1	Active	$125,000	0.42	211	$592
12	Active	$320,000	2.63	237.9	$1,345
14	11/9/03	$190,000	5.93	240	$1,029
11	06/13/02	$200,000	1.90	275	$800
15	12/8/02	$425,000	10.22	280	$1,138

(For presentation, the addresses and adjustments in these tables have been hidden.)

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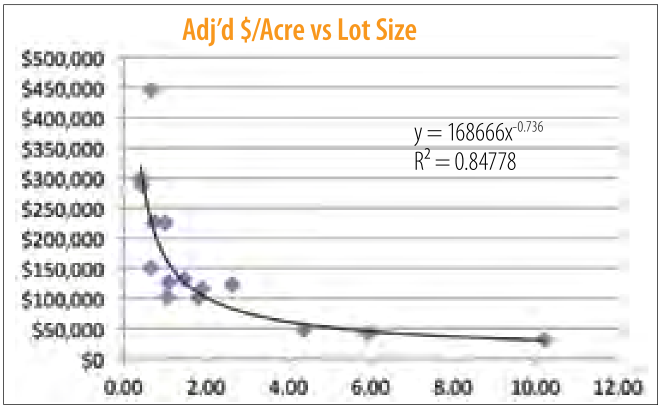

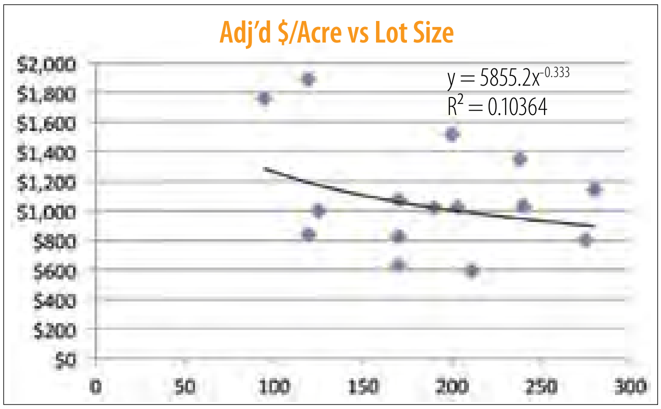

spreadsheet and statistical software) mathematically fits the trendline to the data to best fit its dispersion. You can see that the trendline on the left fits the data much better than the one on the right. Another name for this trendline is a **regression** line and this process, as it turns out, is one of the many forms of regression analysis.

Regression analysis is a powerful statistical tool that is widely used in the sciences for prediction and forecasting. It can tell you if there is or is not a correlation between two (or more) variables. With real estate analysis, we are always asking how certain characteristics – building size, floor location in a high rise, quality and condition ranking, lot size, time – affect price or value. In this case, it enabled me to determine not only that lot size had a great effect on price, but just as importantly, that front footage variation did not. Clearly, there was very good correlation in the first comparison and limited correlation in the second. (The R^2 – the coefficient of determination – measures how much of the variability in the adjusted price/acre and price/front foot is explained by the regression line. In the first chart, 85% of the variability in price is explained by size; in the second, only 10% is explained by lot frontage.)

Taking it a step further, if you remember your high school algebra, these lines and curves are mathematically defined by an equation (Excel can calculate and display the equation, as shown above). Using the equation of the line/curve allows you to input an x value (lot size in this case) to find the y value (price/acre). This equation can be used to great effect in your analysis. In the first chart, the equation of the curve is shown as:

$$y = 168{,}666\,x^{-0.736}$$

By inputting subject lot area (x), the regression equation can be solved for price/acre (y). For example, if the subject is 2.5 acres, solving for y is done as follows:

if x (subject lot size) = 2.5 acres, then
y (subject price/acre) = $168{,}666\,(2.5)^{-0.736}$ or,
y = $85,930/acre

Therefore, the resulting estimate of market value is $215,000 ($85,930 x 2.5 acres, rounded). Using the same equation, a subject area of 2.0 acres results in a value estimate of $205,000 and a 5.0-acre lot has a market value of $260,000.

Regression analysis can answer difficult questions with far more certainty than traditional valuation reconciliations that favour one or two comparables from a table of sales. It allows a wider set of data to meaningfully influence your analysis. It can be used to value vacant and improved properties in the direct comparison approach when you have good data across a wide range of sizes (typical in small or specialty markets). It can effectively differentiate lot values in a potential subdivision when there is lot size variation in the proposed layout (which is usually the case). It can estimate the added value of a building expansion or evaluate the division of a building into various rental size scenarios. It can estimate the before and after effects of partial takings. It can expose outliers or errors in data and send you back for further investigation. It can reveal patterns in data and it can show you what is just noise.

I believe so strongly in the power of regression analysis as a fundamental valuation tool that I wanted to write about this topic for an earlier *Canadian Property Valuation* issue. But, as I was writing, I quickly realized I was not (and still am not) an expert and had far too many questions of my own. So, I shelved the article and looked to the AIC's educational offerings to see if I could find a course that would give me some formal instruction. I enrolled in University of British Columbia's *BUSI 344 – Statistical and Computer Applications in Valuation* – one of the core courses in the current AACI program.

I am most of the way through this course now and have to say that it has been far more interesting and illuminating than I could have ever anticipated. The course content is easy to relate to, as it includes typical real estate analysis problems and situations that many of us face on a daily basis. It not only introduced incredibly useful tools and methods, but also repeatedly emphasized the potential pitfalls and dangers of applying rote formulae to the study of the marketplace. It reconfirmed the adage that real estate valuation is both science *and* art.

If you are working in the field of real estate appraisal and you wish to have a deeper understanding of the use and interpretation of data, you owe it to yourself to take this course. If you want to advance your ability to discover and reveal the meaning of your market to your clientele, you owe it to them.

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By Erica Giesbrecht, AACI
Member, Learning Advisory Committee

The path less travelled: non-traditional valuation careers

The transition from school to career can be a stressful time, but, with a little research into the possibilities out there for an appraiser, the prospects are exciting. Some will choose fee appraisal, while others explore so-called 'non-fee' opportunities – government, institutional, and advisory work. Some specialize and stick to their specialty for their careers, while others move around and apply gained knowledge and experience to a variety of different roles. To shed some light on these alternative, non-traditional paths, five AIC members have agreed to participate in a short Q&A.

Two of these Candidates, Mark and Tim, have chosen different paths, though both work for large, competing institutional firms. Mark has never worked as a fee appraiser and currently specializes in underwriting and analysis of commercial mortgage investments. Tim started out in fee appraisal, but has since moved to the non-fee side, specializing in real estate investment analysis. Though their backgrounds and specializations vary, they share a few similarities.

Motivation to pursue an appraisal designation: Both feel an AACI provides an edge in a competitive job market, and, furthermore, that the AIC curriculum and training offers an excellent knowledge base for the micro and macro factors that drive value.

Work variety: Both state variety is what they

AIC member:	Undisclosed name, Candidate	Michael, Candidate	Michael, recent AACI	Mark, Candidate	Tim, Candidate
Specialization:	**Municipal assessment**	**Investment sales brokerage**	**Property tax recovery consulting**	**Mortgage investments**	**Real estate investment analysis**
A typical day in my job involves…	…working in the field doing maintenance inspections, and, in the office, preparing, entering data and auditing my field work.	…meeting with clients, cold calling, and keeping up to date with news and local market knowledge.	…meeting with clients and municipalities, writing reports, and attending assessment hearings.	…evaluating both new loans and existing portfolio, appraising properties, and conducting property inspections.	…completing appraisals, reviewing external valuations, internal reporting, and risk management.
What do you enjoy most about your job?	The diversity of properties and flexibility of working both in the office and in the field.	The potential for significant personal and financial growth and freedom.	Dealing with clients in person and working in the field.	The range of responsibilities, the geographic scope of our portfolio, and working both in the field and office.	Working with all major asset classes in every major market across the country.
Have you worked in fee appraisal before?	Yes, and I would have loved to continue, but it was hard to find steady work as a candidate appraiser.	Yes, for roughly eight years prior to moving to commercial brokerage.	Yes, I entered the industry as a candidate fee appraiser.	No.	Yes. Starting out in a small shop allowed me to work on assignments that I may not have had the chance to at a larger appraisal firm.
Do you have any interest in working in fee appraisal? **If not, why?**	Yes, I would like to eventually. The freedom of being your own boss and making your own schedule is appealing.	Not at the moment. I was looking for a different challenge in brokerage; one with a limitless potential for personal and financial growth.	It is a great business to be in, however, I really enjoy the work I am doing now.	Less so right now, as one of my goals during the AEP is to obtain a broader outlook of the industry.	I don't think so; though I highly value the experience I gained in fee appraisal.
Why pursue an appraisal designation?	I inherited the passion for real estate from my father, and the appraisal niche seemed like a great option for me.	Among commercial brokers, the AACI designation carries a lot of weight and credibility.	A means to differentiate myself in the work force and to better serve the highly sophisticated end of the real estate market.	It was a great way to gain knowledge and an edge for someone starting out in an often competitive industry.	It provides a strong understanding of real estate, applicable to a variety of jobs throughout the industry.

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enjoy most about their jobs. They both cover vast geographic areas, and work with a variety of sizes and types of investment properties. Their daily responsibilities include valuations of owned or mortgaged properties, reviewing third-party appraisals, and assessing risk involved with potential and existing investments. Mark enjoys that a typical day in mortgage investments could involve working in the office or out in the field inspecting properties all over British Columbia. Tim enjoys being able to work on projects involving properties from Vancouver Island to Halifax.

Fee versus non-fee work: Despite Tim having previous fee appraisal experience and Mark not, their views on the appeal of non-fee versus fee were similar. They both felt that fee appraisal lacks the variety of responsibilities they love about their current non-fee roles. From what they knew of the larger appraisal shops, neither of them wanted to be limited to working on just one or two property types or a particular purpose, such as strictly for tax appeals or expropriation. Tim highly values the experience he gained starting out in fee appraisal but doesn't see himself returning to it, while Mark expressed more openness to the possibility of a future in fee appraisal.

The high level of fluidity in all valuation work contributes to its appeal. AIC Candidates who choose to specialize in investment properties could find themselves in a number of exciting fee and non-fee roles throughout their careers. For those of us who are just starting out in the business, the potential for such variety and flexibility is very reassuring.

Learning Advisory Committee

Clifford Smirl, AACI – Chair
Peter MacLellan, AACI
Erica Giesbrecht, AACI
Glenn Fletcher, CRA
John Bridal, UBC
Andre Gravelle, UBC
Signe Holstein, ED, AIC – ON
Thomas Fox, AACI – Board Liaison
To contact this committee, email:
lac@aicanada.ca

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Spotlight on Continuing Professional Development

FEED YOUR FUTURE with CPD FRIDAYS

The UBC Real Estate Division continues its series of live online webinars on Friday, June 1 from 9 am-11 am Pacific time (12 pm-2 pm Eastern time). The webinars are two-hour presentations by expert instructors, in an interactive online classroom environment. By attending the session and completing two hours of pre-reading on your own, you will receive four AIC CPD credit hours. There is no quiz or exam required to receive these credits.

This article highlights one upcoming webinar in the UBC Real Estate Division's *CPD Fridays* series, *CPD 135 Buy Smart - Commercial Property Investment*. ***Feed Your Future!***

CPD 135: Buy Smart - Commercial Property Investment

Anyone involved in real estate will occasionally come across deals that do not seem to make sense: some real estate deals do not seem to make sense to appraisers.:

- A private investor buys an apartment building for an exceptionally high price.
- A REIT buys several run-down retail plazas in a suburban neighbourhood. A Pension Fund sells a well-performing office building in the downtown core, with little exposure to the market.
- A Limited Partnership buys a largely vacant office building after a tenant with 80% of the space did not renew its lease.

You follow the market quite closely, you have as good a grasp of the fundamentals as anyone, and yet you are at a loss to explain why these deals happened and at the prices they commanded. You know these are sophisticated market players and they are anything but stupid – so what do they know that you don't? If these sales are brought up as potential comparables in an appraisal, the easiest solution might be to ignore them as non-market transactions. However, in doing so, you may be losing valuable market insight – the optimal solution is to dig a little deeper and try to better understand the motivation of the parties involved.

Typically, any given commercial real estate investor will follow a consistent decision model. They develop a game plan for how to outcompete the market, such as a niche where they can generate value above that of their competitors . . . and once they have this successful strategy, they tend to stick to it. To the outsider, their actions may appear to generate reported sale prices and overall cap rates out of sync with general market trends. But, what appear to be anomalies may, in fact, be a decision model that differs from the market. Peeling apart these deals is the key to understanding the behaviour and motivation of buyers and sellers of commercial real estate. That is the basis for this webinar – unlocking the decision model puzzle within these investment actions.

This webinar will explore how each investor's investment objectives are linked to a defined approach to balancing risks and rewards. Using examples of recent transactions, we will progress to uncover elements of an **acquisition decision model:** identifying investment opportunities and filtering out options with a combination of investment metrics, market analysis, and experience. We also touch on the nuances in drafting contracts of purchase and sale and the due diligence process.

The primary focus in the webinar will be the various investment metrics and tools used by investors to measure the benefits of a potential acquisition project. Of particular interest are the metrics commonly used by institutional investors, such as REITs and large private and public real estate investment corporations. We will also discuss the impact of financing on investment viability and the importance of the spread between loan rates and return on equity.

At the conclusion of this webinar, students should have a greater appreciation for the investment decision process and the approach that large investment entities often take in adding or pruning properties from their portfolios.

Webinar objective: provide a general understanding of the investment decision model for larger commercial real estate investments. Students should have some knowledge or experience with commercial real estate issues, including leasing and simple real estate metrics (e.g., cap rates and net operating income).

After completing this webinar, students

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should be able to:

- explain the decision making process for acquisition of investment grade commercial real estate;
- describe the due diligence process;
- identify and measure, using high-level analysis tools (metrics), the pros and cons of various investment options;
- explain the impact of financing on investment return; and
- develop a simple business case for the decision to buy or sell a commercial real estate asset.

See you online!

Upcoming *CPD Friday* webinars

- Friday, June 1, 2012: *CPD 135: Buy Smart -- Commercial Property Acquisition*
- Friday, September 7, 2012: *CPD 108: Seniors Facilities Valuation*
- Friday, October 5, 2012:
  - *CPD 112:* Real Estate Consulting – Forecasting
  - *CPD 128: Retail Property Valuation*
- Friday, November 2, 2012:
  - *CPD 143: Automated Valuation Models (AVMs)*
  - *CPD 122: Expropriation Valuation*
- Friday, December 7, 2012:
  - *CPD 113: Request for Proposals (RFPs)*
  - *CPD 129: Industrial Property Valuation*

For more information on these and other UBC CPD offerings, please visit our website at *www.realestate.ubc.ca/webinar or www.realestate.ubc.ca/cpd*

"Peeling apart these deals is the key to understanding the behaviour and motivation of buyers and sellers of commercial real estate."

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AIC designations granted / *Désignations obtenues de l'ICE*

The Appraisal Institute of Canada (AIC), together with the provincial associations and the provincial bodies affiliated with the AIC, commend the following members who completed the rigorous requirements for accreditation as a designated member of the AIC during the period January 28 to April 12, 2012:

L'Institut canadien des évaluateurs (ICE), en collaboration avec les associations provinciales et les organismes provinciaux affiliés à l'ICE, félicitent les membres suivants qui ont complété le programme rigoureux d'accréditation à titre de membre désigné de l'ICE durant la période du 28 janvier, 2012 au 12 avril, 2012 :

AACI

Accredited Appraiser Canadian Institute

We welcome and congratulate these individuals as fully accredited members of the Institute through the granting of their AACI designation.

Accueillons et félicitons comme membres pleinement accrédités de l'Institut et leur accordons avec fierté la désignation AACI.

ALBERTA
Mark Berestiansky
Simon Chin
Jesse Kramps

BRITISH COLUMBIA
David Deng
Nicholas J. Mirsky
Rupinder Rai
Brian C. Smith

MANITOBA
Melissa Shaw

ONTARIO
Jonathan G. Bannister
Rod Bowers
Matthew J. Bruchkowsky
Janine Haanstra
E Glenn Mariano
Cameron A. McAlpine
Qaiser S. Mian
Ryan Richard Parker
Matthew J. Telford
Lianne K. Weatherup

QUEBEC
Diane Prévost

CRA

Canadian Residential Appraiser

These members are congratulated on the successful completion of the CRA designation requirements.

Nous félicitons ces membres pour avoir complété avec succès le programme menant à la désignation CRA.

ALBERTA
Amandeep S. Dhanju
Katherine A. Hudson
Darren A. Ingram
Dan MacDonell
Scott David MacFarlane
Dirk Erwin Schotz
Marc Tralnberg

BRITISH COLUMBIA
Jason Paul Bristow
Paul C. Ellis
Jesse Song Jing

NOVA SCOTIA
Cathy-Lynn How

ONTARIO
Robert D. Daum
Derrick Dupuis
Danny Gaskas
Michelle S. Landsperger
Jennifer J. Long
Stefano F. Pantarotto
Tony P. Petruzzo
Clarisse M. Williams

QUEBEC
Paul Ligeti

SASKATCHEWAN
Paul Spriggs

YUKON
Cara Liane Campion

Candidates / *Stagiaires*

AIC welcomed the following new Candidate members during the period January 28, 2012 to April 12, 2012:
L'ICE souhaite la bienvenue aux personnes suivantes qui ont joint les rangs des membres stagiaires durant la période du 28 janvier, 2012 au 12 avril, 2012 :

ALBERTA
Abbas Hamzeh
Tyler Hansen
Michael Luxton
Kyle Malcolm
Dylan Sidwell

BRITISH COLUMBIA
Philippa Ahrens-Henrichsen
Theodore Chuang
Sean Cranston
Donald Danbrook
Scott E. Little
Chris S. Maddalozzo
Jessica Ryczkiewicz
Jennifer Strauss
Ian Yu-Yang Su
Graham Wood
Fang Zou

MANITOBA
Ryan D. Bickerton
Mark W. McDill
Robert James Penner
Anne M. Wowchuk

NEWFOUNDLAND & LABRADOR
Terence Griffin

NOVA SCOTIA
Alison Montena
Wendell Sampson
Chris Tanner

ONTARIO
Michael R. Connell
Amit Dhand
Craig England
Nick Jurich
Stephen Kerr
Irena Lechnowsky
Dennis A. Montagnese
Benjamin Olugbemiro
Gianmario Pighin
Rajesh Rathi
Adam Schoones
Norma Siroski
Thomas Tereshyn
Marco Torchia

QUEBEC
Philippe Julien

SASKATCHEWAN
Scott Cheston
Derek Ramage
Jeremy Sibley

Students / *Étudiants*

This category of membership serves as the first step on the path to designation for those completing their requirements for Candidate membership. Students considering the appraisal profession as a career option are also welcomed to this category of membership.

Cette catégorie de membre constitue la première étape sur la voie de la désignation pour ceux qui s'affairent à compléter les exigences de la catégorie de membre stagiaire. Les étudiants qui contemplent une carrière comme évaluateur professionnel sont bienvenus à joindre cette catégorie de membre.

ALBERTA
Rebecca A. Mulak

BRITISH COLUMBIA
Ryan Kenis Peterson
Sharon Xiao Dong Zhang

ONTARIO
Qinghai Hou
Jiannan Max Ma
Christopher J. Mason
John Smulders
Michael B. Yeo

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CRITICAL DATES

The AIC would like to remind members that they have until December 31, 2012, the end of the current five-year Continuing Professional Development (CPD) cycle, to complete the mandatory Professional Practice Seminar. Designated members earn 14 CPD credits upon successful completion of the seminar.

Multiple two-day classroom sessions are being offered across the country, between now and the end of the year, by the provincial associations and affiliated provincial organizations. The AIC national office also offers members the option to complete the seminar through distance education. Please visit the Conference & Events section of the AIC website for more details and to register.

Mid-August 2012 - Member dues invoices notification emailed to members

September 30, 2012 - Member dues payable

September 30, 2012 - Candidates must report their successfully completed university courses taken between October 1, 2011 and September 30, 2012 using the online CPY reporting tool.

December 31, 2012 - Final date for completion of 60 credits for current five-year CPD cycle.

If you require CPD credits, attend the Annual Conference in Ottawa June 6-9 to obtain a minimum of 15 CPD credits.

IN MEMORIAM

The following members of the Appraisal Institute of Canada have passed away. On behalf of everyone connected with the Institute and the profession, we extend our sincerest sympathies to their families, friends and associates.

Les membres suivant de l'Institut canadien des évaluateurs sont décédés. Au nom de tous ceux qui oeuvrent de près ou de loin au sein de l'Institut et de la profession, nous exprimons nos plus sincères condoléances à les familles, amis et associés.

Donald McCallum, CRA, Ottawa, ON
John Stetler, Candidate, Innisfil, ON

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ANNUAL CONFERENCE OF THE APPRAISAL INSTITUTE OF CANADA

SHAPE OF THINGS TO COME

STRATEGIES FOR SUCCESS

AIC 2012 OTTAWA JUNE 6-9

OTTAWA, ONTARIO, FAIRMONT CHATEAU LAURIER, JUNE 6-9, 2012

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Calendar of Events

AIC

2012 Annual AIC Conference
Theme: Shape of Things to Come – Strategies for Success
June 6 – 9 2012
Fairmont Chateau Laurier, Ottawa, Ontario

BC

Professional Practice Seminars

May 29 & 30, 2012	Fraser Valley
June 1 & 2, 2012	Lower Mainland
September 14 & 15, 2012	Prince George
October 26 & 27, 2012	Lower Mainland
November 23 & 24, 2012	Okanagan

For information contact *info@appraisal.bc.ca*
or (604) 284-5515 or check *www.appraisal.bc.ca*

AB

For registration or further information, go to the Events section of our website: *http://ab.aicanada.ca* or email us at *aic.alberta@shawlink.ca* or call (403) 207-7892

SK

For information contact Marilyn Steranka at *skaic@sasktel.net*
or (306) 352-4195 or check *http://saskatchewan.aicanada.ca*

MB

For information contact Pamela Wylie at *mbaic@mts.net*
or (204) 771-2982 or check *http://manitoba.aicanada.ca*

ON

Principles of Wealth: The Wealth Code Decoded ™
June 18, 2012 – Mississauga
9:00 am – 12:00 pm

Lending and Appraising
1:00 pm – 4:00 pm

Litigation and the Real Estate Professional (Practice Case Studies to Protect Yourself)
June 22, 2012 – London
9:00 am – 4:00 pm

ON

Professional Practice Seminars

May 25 & 26	Mississauga
June 1 & 2	Hamilton
June 13 & 14	Mississauga
June 15 & 16	Mississauga
July 6 & 7	Ottawa
September 14 & 15	Renfrew
September 28 & 29	Owen Sound
October 12 & 13	Barrie
October 19 & 20	Mississauga
November 2 & 3	Peterborough
November 16 & 17	Mississauga
November 30 & December 1	London
December 7 & 8	Mississauga
December 14 & 15	Toronto

For information or to register please log onto *www.aicanada.ca* under Provincial Site Click Ontario – Events, or contact Lorraine Azzopardi at *lorraine@oaaic.on.ca* (416) 695-9333 Ext 222

QC

Professional Practice Seminar
Instructor: Laurent Brosseau
October 26 & 27 (French) - Montreal
For information contact *aqice@aicanada.ca* or
(866) 726-6916 or (613) 234-6533 or visit *http://qc.aicanada.ca*

NB

For information please contact Jennifer Nemeth-MacArthur at *nbarea@nb.aibn.com* or check *www.nbarea.org*

NS

Professional Practice Seminar
September 27 & 28, 2012
Park Place Hotel & Conference Centre, Dartmouth
For information contact Davida Mackay at *nsreaa@nsappraisal.ns.ca* or (902) 422-4077 or check *http://nsreaa.ca/*

PE

For information contact Suzanne Pater at *peiaic@xplornet.com* or (902) 368-3355 or check *http://pe.aicanada.ca*

NL

For information contact Susan Chipman at *naaic@nf.aibn.com* or (709) 753-7644 or check *http://newfoundland.aicanada.ca*

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