

Property Valuation Process: Introduction to Appraisals

October 24, 2007

Presented by

Bruce R. Simpson, AACI, P. Ag.

Serecon Valuation & Agricultural Consulting Inc.



Overview

- Definitions
- Basic Principles
- Appraisal Overview
- Phased Appraisal Process
- Step 4 (Phase 1 Report) Example
- Step 5 (Phase 2 Report) Example



What is an Appraisal?

- An estimate or opinion of value
- A written statement setting forth an opinion of value of an adequately described property as of a specified date, supported by the presentation and analysis of relevant data



Value

- **Objective Value**: *It is an estimate of value which would be reported by a competent appraiser with no vested interest*



Principal of Highest and Best Use

- Highest and Best Use is defined as that use which, at the Effective Date of the Appraisal is most likely to produce the Greatest Net Return to the Land over a given period of Time. Net return may be monetary or take the form of an amenity such as pride of ownership, comfort, or convenience.

When the subject property is looked at in terms of Highest and Best Use the following criteria must be considered;

- the use must be legal
- the use must be within the realm of probability
- there must be a demand for the use
- the use must be considered profitable
- the use must provide the best return for the land
- the return must be for the longest projected period of time

The following factors concerning the site must be taken into consideration as well;

- the site location
- the site's physical features (size, shape, quality)
- the legal factors pertaining to the site
- the economic factors that may pertain to the site, such as marketability, obsolescence, acceptability.



Approaches to Value

- Three Standard Approaches to Value
- Cost Approach to Value Considered Most Applicable



Considerations for Compensation

1. Market Value of Land
2. Replacement Cost of Buildings, Improvements & Infrastructure
3. Damages



Market Value of Land

- The market value of land is the amount the land might be expected to realize if sold in the open market by a willing seller to a willing buyer.



Replacement Cost

- The current cost of constructing an improvement with the same utility as the subject, but built with modern materials, standards, design, and layout.

Sources of Data

- Marshall & Swift Cost Estimator
- Building Contractors
- Service Providers



Damages

- Pursuant to Land Acquisition Principles:
 - Relocation costs
 - Loss of business income during relocation process



The Phased Appraisal Process

- Appraisal report completed in 2 Phases.
 - Phase 1– Definition of Appraisal Problem
 - Phase 2 – Estimate of Compensation

Why?

- Opportunity to Confirm Facts
- Identify Issues and Concerns
- Establish Basis for Valuation



The Phased Appraisal Process

Sequence of Events:

1. Appraisers meet with Landowner
2. Phase 1 Report completed
3. Review of Phase 1 Report for factual errors
4. Meeting of all Parties to discuss Phase 1 Report, Agreed Facts, and Terms of Reference
5. Phase 2 Report completed



Site Inspection

- Meet with landowner
 - Background on how farm is operated
 - History
 - Determine land base and varied farm enterprises
- Inspection
 - Measure and inspect all buildings and improvements
 - structure, age, condition
 - Inspect land
 - determine land use, cultivation, hay or pasture
 - physical features; soil and topography
 - fences, water sources, etc.
 - overall condition of land
 - Inspect services
 - water
 - septic
 - power, etc.
 - Inspect landscaping
 - inventory trees & perennial plants
 - lawns and gardens



Phase 1 - Define the Appraisal Problem

Content

- Summary of Facts
- Purpose of Appraisal
- Assumptions & Limiting Conditions
- Scope of Work
- Area Data
- Subject Property Data
- Specific Property Issues



Phase 1 – Summary of Facts

- Legal Description – NW 23-25-26-W4
- Registered Owners – John Doe
- Property Size – 160.00 acres
- Area Required – 160.00 acres
- Effective Date – February 7, 2008
- Highest and Best Use - Agricultural



Phase 1 – Purpose of Appraisal

- The purpose of the appraisal is to estimate the fair market value of the land, the replacement cost of all buildings and improvements and damages as per the Terms of Reference.
- The function of the report is to assist with the negotiations regarding the land required for the project.
- Describes the Principles of Compensation and the Guidelines upon which the appraisal is based.



Phase 1 – Scope of Work

- Identifies the extent of data research and analysis necessary to complete the report and comply with Canadian Uniform Standards of Professional Appraisal Practice.
 - Area Analysis
 - Physical Inspection
 - Legal Matters



Phase 1 – Assumptions & Limiting Conditions

- Legal Description Correct
- Title is good and marketable
- No encroachments, encumbrances unless noted
- Existing use is legally conforming
- No hidden or unapparent conditions
- Not qualified on environmental issues
- Property not inspected for fire/smoke detection equipment
- Others specific to subject property



Phase 1 – Area Data

- Location; municipalities, nearest centres
- Populations and facilities
- Climate
- Soil and general physical characteristics
- Area economy



Phase 1 – Subject Property Data

- Legal Description and Maps
- Acreages
- Soil and Topography
- Land use and Zoning



Phase 1 – Subject Property Data

- Buildings & Improvements :
 - 1,500 sq. ft. house
 - 2,500 sq. ft. shop
 - Corral facilities
 - Services, landscaping

- Access : Gravel

- Soil & Topography –
Canada Land Inventory Soil Rating: 2S



Phase 1 – Subject Property Data

- Zoning – Agricultural
- History of Subject Property – No sales within 3 years, and no current listings or offers.



Phase 1 – Specific Issues

- Specific to individual properties, but based upon issues pertaining to:
 - Market Value of Land
 - Replacement Cost of Buildings, including improvements, and infrastructure
 - Damages



Phase 1

- Following completion of Phase 1 Report there is an opportunity to review the report and meet to discuss the Phase 1 Report, Agreed Facts, and Terms of Reference



Phase 2 – Estimate of Compensation

Content

- Highest & Best Use
- Estimate of Market Value for Land
 - Cost Approach
- Replacement Costs
 - Buildings, Improvements, Infrastructure
- Damages



Phase 2 – Cost Approach

- Estimate vacant land value
 - Research comparable open market sales
 - Inspect and confirm sales
 - Value estimate; based on analysis of sales

- Estimate replacement cost of improvements
 - Replacement of utility for all functional buildings and improvements



Phase 2 – Damages

- May include any of the following:
 - Relocation/Moving Costs
 - Business Losses
 - Severance Damages
 - Legal/Expert Costs
- Damages are site specific and each item above may not apply to every property



Summary

- An Appraisal is a written statement setting forth an opinion of value of an adequately described property as of a specified date, supported by the presentation and analysis of relevant data
- Appraisal includes estimate of:
 - Market Value of Land
 - Replacement Cost (buildings, improvements, infrastructure)
 - Damages



Summary

- Appraisal report completed in 2 Phases.
 - Phase 1– Definition of Appraisal Problem
 - Phase 2 – Estimate of Compensation
- Why?
 - Opportunity to Confirm Facts
 - Identify Issues and Concerns
 - Establish Basis for Valuation

