

# Appraisal Guidelines

## Office of the Chief Appraiser



## Valuation and Payments In Lieu of Taxes Programs Directorate



**APPRAISAL GUIDELINES**

**USPAP**

**PURPOSE**

The purpose of this guideline is to define the application of the *Uniform Standards of Professional Appraisal Practice* (USPAP) for PWGSC.

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## 1.0 PREFACE

1.1 The original *Uniform Standards of Professional Appraisal Practice* (USPAP) were developed by *The Appraisal Foundation* in the United States in 1987. The USPAP were adopted at the organizational meeting of the *Appraisal Standards Board of The Appraisal Foundation* on January 30, 1989. These standards have been adopted by most appraisal organizations in North America. The *Appraisal Institute of Canada* (AIC) adopted the USPAP for its members effective January 1, 1994.

1.2 The *Appraisal Institute of Canada* is the most widely accepted **national** appraisal organization in Canada. Any appraiser who is a member of the AIC must provide appraisal services in compliance with the following:

- .1 the current Canadian Supplement to the USPAP
- .2 the current edition of the USPAP, which includes:
  - a) Standards and Standards Rules
  - b) Statements on Appraisal Standards
  - c) Advisory Opinions
- .3 Supplemental Standards of Professional Appraisal Practice of the AIC
- .4 Guide Notes to the Standards of Professional Practice of the AIC
- .5 Current Code of Ethics of the AIC

1.3 L'Ordre des évaluateurs agréés du Québec is the predominant appraisal organization in the Province of Quebec. L'Ordre has not as yet adopted the USPAP.

1.4 On June 20, 1994, Mr. Jack Montpetit, Manager of Appraisal Services for Canada Mortgage and Housing Corporation (CMHC) wrote the AIC on behalf of PWGSC, Revenue Canada, the Farm Credit Corporation, the National Capital Commission and CMHC. He asked for written confirmation from the AIC on the following two points:

- “- AIC members in the employ of government departments and agencies do not have to comply with USPAP when doing internal appraisal work for their employer or other government departments. If appraisal assignments are being undertaken for external non-governmental clients, adherence to USPAP requirements is mandatory.
- Non compliance with USPAP requirements for internal government appraisal work will not have a negative impact on the degree to which articling credits are awarded.”

Mr. Don Horne, AACI, of the Standards Board of the AIC, replied on September 6, 1994 as follows:

“Your first point ... is correct. However, it should be understood that if an appraisal was required to be used in 'court' USPAP requirements would have to be met.

With regard to your second point, the in-house appraisal work would qualify for articling credits in the same manner as assessment work.”

## 2.0 POLICY

- 2.1 For many years, PWGSC has been a leader in requiring adherence to a high standard of appraisal analysis and appraisal report content. This requirement will continue with the advent of the USPAP. PWGSC Guidelines for self-contained appraisal reports (narrative reports) (1B1), restricted appraisal reports (letter reports) (1B2) and summary reports (form reports) (1B3) are, by their design, consistent with the standards required by the USPAP. However, in order to maintain direct control over its business practices, PWGSC will not officially endorse the USPAP as departmental policy for internally prepared reports.
- 2.2 The Department will require, when hiring private sector appraisers, that the appraisal report, as a minimum requirement, meet the Appraisal Institute of Canada's "*Uniform Standard of Professional Appraisal Practice* (USPAP). For all appraisals completed in the province of Quebec, that the appraisal report, as a minimum requirement, meet "*les Normes de pratique professionnelle*" adopted by l'Ordre des Évaluateurs Agréés du Québec and the *Uniform Standard of Professional Appraisal Practice* (USPAP - canadian version), if they are compatible with "*les Normes de pratique professionnelle* adopted by l'Ordre des Évaluateurs Agréés du Québec.
- 2.3 Any in-house appraiser who is a member of a professional appraisal organization, such as the AIC, must satisfy the requirements of that organization with respect to USPAP and supplemental standards only if the appraisal report is to be knowingly used in court or is done for an external, non-government client, as per paragraph 1.4 above.
- 2.4 Given that PWGSC provides services solely to federal departments and agencies, under the provision of paragraph 1.4, attestations, estimates or preliminary estimates of value may not be required to comply with USPAP.
- 2.5 PWGSC's appraisal review guideline (2A1) has been drafted to substantially comply with USPAP. However, as per paragraph 1.4, PWGSC policy does not require compliance with USPAP for the review of any appraisal report or estimate completed internally by PWGSC employees. If the review is done via a contract with a private sector appraiser, the requirements of our contract and the USPAP must be met.

APPRAISAL GUIDELINES

Self-Contained Appraisal Report (Narrative report)

PURPOSE

Public Works and Government Services Canada acts as the real estate broker for the federal government and as such is responsible for the development of required standards. The guideline presented here represents an important part of this task. It will help ensure uniformity of format and content in the appraisal reporting (self-contained appraisal report (narrative report) format) of the many appraisers providing estimates of value for federal real property decisions.

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## 1.0 PREFACE

- 1.1 The federal government land program covers a wide area and takes many forms -purchase, lease, development, transfer, and expropriation. The funds expended in government land action belong to the public and many individual persons in that public are affected by such action. For this reason, the acquisition and transfer of real property by federal departments must meet the highest standards of fairness, uniformity and efficiency.
- 1.2 The appraisal standards of Public Works and Government Services Canada are based on the acknowledged standards of the major professional appraisal organizations in North America, in particular the Appraisal Institute of Canada (AIC). In its text, *The Appraisal of Real Estate, Canadian Edition* (1992), the AIC defines an appraisal report as follows: "AN APPRAISAL REPORT LEADS THE READER FROM THE DEFINITION OF THE APPRAISAL PROBLEM THROUGH ANALYSIS AND RELEVANT DESCRIPTIVE DATA TO A SPECIFIC CONCLUSION. THE APPRAISER MUST PRESENT ALL FACTS, REASONING, AND CONCLUSIONS CLEARLY AND SUCCINCTLY. THE LENGTH, TYPE AND CONTENT OF APPRAISAL REPORTS ARE DICTATED BY THE CLIENT, REGULATORY REQUIREMENTS, THE COURTS, THE TYPE OF PROPERTY BEING APPRAISED AND THE NATURE OF THE PROBLEM." ... "A narrative appraisal report should be designed for maximum communication with the reader".
- 1.3 The function of an appraisal report in the context of federal real property appraisal is generally to enable someone, other than the appraiser, to make a decision involving the purchase, lease, or exchange of property, based on the value indicated. It may form the basis of judgement by a department to pay more or less than the appraised value, and in the case of two appraisals on the same property, to exercise a judgement as to the value on which the decision should be based. Appraisals required by the federal government are usually needed for negotiation purposes, and, to be of value, must provide the negotiator/reader with the full data, reasoning and analysis of that data.
- 1.4 The appraiser's report must be documented and supported so as to convince an impartial reader of the soundness of the estimates. The material should be set forth as simply as possible, in order to achieve effective communication with the reader while conserving the reader's time. No matter how diligently the appraiser has carried out the work, the value of the written report can be diminished by its presentation. Not all appraisers can organize or communicate an effective written message, nor do all appraisers communicate in the same manner. For this reason, it is important to follow a standardized format to ensure that the material the appraiser has compiled is presented in a simple and organized way and that sufficient data is included to meet the client's needs.
- 1.5 The Self-Contained Appraisal Report (Narrative Report) Format will constitute the basic outline and content of an appraisal report. Most appraisers are already using a similar procedure, following the format of appraisal institutes. This format provides the client with the best method for understanding the appraiser's reasoning and conclusions, and assists the appraiser in analysing the problem logically.
- 1.6 The appraisal report provides the estimates and conclusions necessary to meet the objectives of the client (other branches in PWGSC, other departments, agencies or Crown corporations).

## 2.0 POLICY

- 2.1 The amount of data included in a report depends on the type of property appraised and the judgement of the appraiser. A report that fails to convey necessary background information cannot provide a sound basis for decision making. Subheadings should be used to organize the data to aid both the client and the appraiser.
- 2.2 In agreement with the Canadian Appraisal Institute of Canada and l'Ordre des Évaluateurs Agréés du Québec, PWGSC recognizes that self-contained appraisal reports (narrative report) should include the following minimum standards. These are excerpts from the "Uniform Standard of Appraisal Practice" (USPAP - canadian version):
- i) identify and describe the real estate being appraised;
  - ii) state the real property interest being appraised;
  - iii) state the purpose and intended use of the appraisal;
  - iv) define the value to be estimated;
  - v) state the effective date of the appraisal and the date of the report;
  - vi) state the extent of the process of collecting, confirming, and reporting data;
  - vii) state all assumptions and limiting conditions that affect the analyses opinions, and conclusions;
  - viii) describe the information considered, the appraisal procedures followed, and the reasoning that supports the analyses, opinions, and conclusions;
  - ix) describe the appraiser's opinion of the highest and best use of the real estate, when such an opinion is necessary and appropriate;
  - x) explain and support the exclusion of any of the usual valuation approaches;
  - xi) describe any additional information that may be appropriate to show compliance with, or clearly identify and explain permitted departures from the specific guidelines of STANDARD 1 (USPAP);
  - xii) include a signed certification in accordance with Standards Rule 2-3 (USPAP).
- 2.3 The reasons leading to the appraiser's conclusions must be clearly stated to help the client understand the report.
- 2.4 The report must be enclosed in a suitable cover, preferably cerlox or duotang and not a ring binder.
- 2.5 **Metric units of measurement (or metric followed by imperial in brackets) must be used throughout the report.**
- 2.6 The report is subject to a review procedure against these guideline standards.
- 2.7 Whenever possible and relevant, two or more approaches to value should be applied in the appraisal report; even if the subordinate approach(es) is (are) used only as a rough check on the value derived from the more appropriate or better substantiated approach.
- 2.8 **The appraiser/author must inspect the property being appraised.** However, at PWGSC's request, there may be special situations where interior and complete exterior inspections are not required. When these situations apply, the terms of reference will specify such requirements on a case-by- case basis.
- 2.9 A discussion of **Reasonable Exposure Time (including the kind of real estate at what value range)** must appear in an appropriate section of the self-contained appraisal report (narrative report) that presents the discussion and analysis of market conditions and be referenced at the statement of the value definition and value conclusion. Refer to Appendix C (1B1) for definition of this term.
- 2.10 A section concerning **Marketing Time** must also appear in the appraisal report. Since marketing time occurs after the effective date of the market value estimate and the marketing time estimate is related

to, yet apart from the appraisal process, it is appropriate for the section of the appraisal report that discusses this issue and its implication to appear toward the end of the report after the market value conclusion. Refer to Appendix C (1B1) for a definition of this term.

- 2.11 Appraisers on occasion rely on reports or information prepared by others in making certain decisions in the process of an appraisal. When relying upon the reports of others (with or without reference to specific conclusions from such reports). The following standards apply:
- .1 use reasonable or supported assumptions as the basis for analyses;
  - .2 substantiate acceptance of a report or information relied upon that was prepared by others;
  - .3 identify reports of others and the specifics that were relied upon and mention as a minimum the author, and the date of the report;
  - .4 reveal and explain each apparent discrepancy between any two opinions that were relied upon;
  - .5 accept responsibility for any real estate appraisal or analysis opinion of another relied upon for the analysis, opinion or conclusion;
  - .6 preserve the report of others that have been relied upon;
  - .7 In relying upon reports prepared by others, appraisers should ensure that their errors and omissions insurance coverage is not jeopardized by such reliance.
- 2.12 An appraiser must not use or rely on unsupported conclusions relating to characteristics such as race, color, religion, national origin, gender, marital status, familial status, age, receipt of public assistance income, handicap, or an unsupported conclusion that homogeneity of such characteristic is necessary to maximize the value. An appraiser must ensure that his or her appraisal is impartial, objective and does not illegally discriminate or contribute to illegal discrimination through subjective or stereotypical assumptions.

### **3.0 SELF-CONTAINED APPRAISAL REPORT (NARRATIVE REPORT) FORMAT**

#### **Part I - Introduction**

- 3.1 Title Page
- 3.2 Letter of Transmittal
- 3.3 Table of Contents
- 3.4 Photographs
- 3.5 Summary of Important Facts and Conclusions
- 3.6 Statement of Limiting Conditions and Critical Assumptions

#### **Part II - Factual Data**

- 3.7 Definition of the Appraisal Problem
- 3.8 Scope
- 3.9 Identification of the Property
- 3.10 Area and City Data
- 3.11 Neighbourhood Data
- 3.12 Site Data
- 3.13 Services Available to the Site
- 3.14 Description of the Buildings
- 3.15 Site Improvements
- 3.16 Assessed Value and Annual Taxes
- 3.17 History
- 3.18 Mortgage Data
- 3.19 Lease Details
- 3.20 Land Use Controls (Zoning, etc.)

#### **Part III - Analysis and Conclusion**

- 3.21 Analysis of Highest and Best Use
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## 4.0 SELF-CONTAINED APPRAISAL REPORT (NARRATIVE REPORT) STANDARDS

### Part I - Introduction

#### 4.1 Title Page

This includes:

- a. name of owner(s)
- b. address of the property (or a brief legal description, where no postal address is available)
- c. type of property (residential, industrial, commercial, vacant land, etc.)
- d. name of the individual making the report
- e. name of the person to whom the report is addressed.

#### 4.2 Letter of Transmittal

A normal letter including:

- a. address of appraiser
- b. date
- c. name and address of addressee
- d. the usual salutation
- e. date and source of authorization to make the appraisal
- f. identification of value and interest appraised
- g. effective date of the appraisal
- h. any other particulars or factors that need to be drawn to the attention of the reader
- i. value conclusion
- j. signature of appraiser (while more than one appraiser may work on the appraisal assignment, **the letter must only be signed by the appraiser designated responsible for the value conclusion and supporting analysis**).

#### 4.3 Table of Contents

This is imperative for reports containing numerous headings and several pages.

#### 4.4 Photographs

Where the appraisal includes substantial buildings, a single enlarged front/side angle view of the major improvement is required. Additional photographs of the subject(s) should be included in the addenda. Original photographic prints or quality, colour photocopies (not black and white xerox copies) should be in all copies of the appraisal report.

#### 4.5 Summary of Important Facts and Conclusions

Limited to basic facts and value estimate of each approach.

#### 4.6 Statement of Limiting Conditions and Critical Assumptions

Limiting conditions can be a standard prepared form to which should be added any extraordinary conditions. Sample conditions are included in Appendix A.

**Under no circumstances should the limiting conditions restrict the Crown's copyright to the appraisal report when commissioned under authority of the Department's standard contract for appraisal services.**

Critical assumptions on which the value conclusion is based should be clearly itemized separately. These are assumptions made by the appraiser or by client instructions in respect to a matter which is critical to the value conclusion, i.e., a zoning change on which the Highest and Best Use is based (see Appendix A).

### Part II - Factual Data

#### 4.7 Definition of the Appraisal Problem

- a. purpose of the appraisal
- b. definition of value required
- c. function of the appraisal
- d. property rights and interests appraised
- e. effective date of the appraisal

#### 4.8 Scope

The appraiser must define the extent of the process of collecting, confirming and reporting data.

#### 4.9 Identification of the Property

This includes not only any municipal address but also a legal description to clearly identify the property. If the legal description is of a lengthy nature, it may be referred to and included in the addenda. It is important that the identification of the property be such that, if there is no actual municipal address, sufficient identification data is given over and above the legal description to clearly identify the property, perhaps with reference to other established points.

#### 4.10 Area and City Data

This data may be minimized but should clearly indicate the geographic location of the community and include any social, political or economic data pertinent to the subject property and its value.

#### 4.11 Neighbourhood Data

The analysis will vary in importance in relation to the type and form of the appraisal. In all cases a social, political and economic description of the neighbourhood must be included. While many appraisals will merely require a brief description of its physical data, a fully reported analysis of the neighbourhood and its trend as it affects the subject property is required in all cases.

#### 4.12 Site Data

This includes:

- a. size, shape and frontage
- b. location of the site with respect to side streets, within the block or within the neighbourhood

- c. details with respect to topography, easements, soil conditions where applicable, mineral deposits where applicable, adjacent properties either side of the subject property and opposite to the subject property, and remarks in respect to whether or not they are detrimental to or harmonious with the subject property
- d. any particular hazardous factors inherent in the immediate location of the property, i.e., floods, odours, etc. (refer to Neighbourhood Data)

#### 4.13 Services Available to the Site

These include:

- a. the actual municipal services and utilities available or whether the property is serviced with a well and septic tank (the latter condition may be included in Site Improvements)
- b. the size and capacity of the services, where the subject property is to be redeveloped or is vacant land. This is particularly important in relation to highest and best use.

#### 4.14 Description of the Buildings

The extent and detail of the descriptions of the buildings depend on the type of report, but the minimum requirements are to indicate:

- a. type of building and age
- b. basic type of structure and building materials used in the main components
- c. dimensions either by cubic or by square metre measurements
- d. description of the rental areas, where applicable, including a statement of the method of measurements used and the type of occupancy
- e. type and style of equipment
- f. physical condition of building and central systems, functional design and quality as a basis for depreciation
- g. any work orders outstanding.

#### 4.15 Site Improvements

These include such items as landscaping, driveways, retaining walls, and other factors of improvement to the site, with the exception of the actual buildings constructed on the site.

#### 4.16 Assessed Value and Annual Taxes

Provide the current assessed value and tax rate and indicate the possibility of any significant changes. Indicate whether taxes are fully paid to the date of appraisal or if any arrears exist. Comment briefly on whether the subject's assessed value appears equitable.

#### 4.17 History

A brief summary of the ownership of the property including:

- a. dates and data with respect to changes of ownership
- b. prices paid for the property if changes in ownership occurred during a reasonable period of time prior to the date of the appraisal. The appraisal analysis must consider and analyze any current Agreement of Sale, option or listing of the property being appraised and consider and analyze any prior sales of the property that occurred within one year if it is a one-to-four family residential property or within three years for all other property types.
- c. any major additions or alterations carried out
- d. a 10-year record of the property, if possible.

#### 4.18 Mortgage Data

Include the pertinent details of all mortgages:

- a. name of the mortgagee
- b. interest rate
- c. debt-service payments

- d. term of the mortgage
- e. type of mortgage
- f. whether it can be discharged before the date of full term
- g. discharge terms
- h. special terms or conditions, if any
- i. If the property has no mortgage, the appraiser should indicate the approximate amount of interest rate and type of mortgage for which the property might normally expect to qualify.

#### 4.19 Lease Details

Details of any lease, sublease, or rentals, such as:

- a. terms (including options)
- b. rental payments
- c. type of lease
- d. who is responsible for what expenses
- e. incentives
- f. area to which the lease is applicable
- g. name(s) and occupation(s) of the tenant(s)
- h. if the lease is of such a nature that it requires reporting in detail, then merely a reference is needed in this section and a copy or extracts of the pertinent details of the lease can be included in the Addenda.
- i. effective rent (after discounting for incentives) is often a useful indicator.

#### 4.20 Land Use Controls (Zoning, etc.)

Describe the nature and detail of any land use controls, including zoning, official plans, and titular restrictions that affect the subject property.

- a. If the property is government owned and either not zoned or zoned for public/institutional use, give an opinion with support as to the probable zoning if it were under private ownership.
- b. Indicate any potential rezoning or change in land use control and whether

any applications for rezoning may have been lodged.

- c. Since legal land use is one of the predetermining factors of the highest and best use, the land use controls and the relationship of the property subject to the zoning, i.e., conforming or non-conforming, and other factors in respect to land use as required under zoning or other land use restrictions, are of the utmost importance and must be clearly defined.
- d. Include copy of pertinent zoning map in addenda.

### Part III - Analysis and Conclusion

#### 4.21 Analysis of Highest and Best Use

Include a definition of highest and best use. The definition will depend on whether the property to be appraised is vacant land or improved property. The highest and best use conclusion must be logical, reasonable, legal (particularly zoning), marketable and one for which there is a demand.

Provide a narrative analysis leading to the highest and best use conclusion and clearly state the conclusion.

#### 4.22 Appraisal Analysis

This constitutes an explanation of the reasons and thinking behind the methods used in the valuation, to prepare the client for the appraisal techniques that follow. If it is not feasible to carry out any of the three basic approaches to value, relating to the type of property, the reasons must be given.

#### 4.23 Land Value as if Vacant

Normally, the direct comparison method will be used to support the estimate of land value. The following information is required in the report when this approach is applied:

- a. The indicated value of land should be supported by confirmed sales of similar

lands having a similar highest and best use.

- b. Differences must be analyzed, adjustments fully explained, supported, and **summarized in chart form.**
- c. Listings and offerings may be used as supporting data only. Minimum sales data should include:
  - registered deed or certificate of title number
  - price
  - date of sale
  - date of registration
  - vendor/purchaser
  - dimensions/area
  - shape
  - topography
  - zoning/land use designation
  - rate per unit
  - other factors

- d. A comment should be made on the value of the subject property indicated by each index property. Plot each index on a map with reference number, showing location relative to the subject.

When other methods of land valuation are being applied (abstraction, extraction, land residual, subdivision methods), the appraiser must provide sufficient justification of all key elements to the application of the method selected. For example, the method of attributing value to the building in the abstraction or extraction methods; and the discount rate, escalation rates, absorption period, developer's profit, lot sale prices and expenses for the subdivision method. Wherever possible, adjustment or other comparison charts should be used to assist the reader in following the appraisal analysis.

#### 4.24 Estimated Value by the Cost Approach

When used, this section shall be in the form of computative data arranged in sequence beginning with the reproduction or

replacement cost, supported by statements of the source of figures used. When costing manuals are used, a copy of the worksheet is to be included in the addenda. The dollar amounts of depreciation should be explained in narrative form and broken down wherever possible into physical, functional and external depreciation.

#### 4.25 **Estimated Value by the Income Approach**

The data used must be factual and supported, and shall include:

- a. an estimated gross economic rent (giving consideration to recovery revenue). In analysing comparable market rent indexes, the appraiser must take incentives into consideration.
- b. allowance for vacancy and credit losses
- c. an itemized estimate of expenses and reserves
- d. source of itemized estimates
- e. the capitalization process, explained and supported by statement of sources of rates and factors from the market.

#### 4.26 **Estimated Value by the Direct Comparison Approach**

The following requirements apply to this approach:

- a. Index sales used must be confirmed. The indexes must be plotted on an appropriate map, showing their location relative to the subject's location.
- b. Sufficient explanation and data must be provided on each index property so that it can be broken down into units for comparison. Minimum sales data should include:
  - registered deed or certificate of title number
  - price
  - date of sale
  - date of registration
  - vendor/purchaser
  - dimensions/area of lot
  - shape of lot

- zoning/land use designation
- dimensions/area of building(s)
- description of building(s)
- description of significant site improvements
- rate per unit
- other factors

- c. Differences must be analyzed, adjustments fully explained and supported, to indicate the reasoning behind the value estimates, and **summarized in chart form.**

#### 4.27 **Reconciliation and Final Estimate of Value**

Where two or more methods have been used, the merits of each method, the weight and reasoning given the indicated values shall be analyzed in arriving at the final conclusion. Where only one method has been used, only a final conclusion is required.

#### 4.28 **Certification**

The standard form certification, certifying that the appraiser has inspected the property and has no interest in same. While more than one appraiser may work on the appraisal **the certification must only be signed by the appraiser designated responsible for the value conclusion.** (See Appendix B).

### **Part IV - Supporting Data**

#### 4.29 **Displays**

Displays are graphic aids placed in the body of the report.

- a. Graphic form involves the use of tables or pictures to convey information.
- b. Wherever possible, graphic aids (tables, maps, photos, etc.) should be placed in association with the descriptive reference. This method will place the graphics either on the

page facing the narrative or as part of the narrative.

- c. Photographs are of particular significance and should be of such a size and quality to enable the reader to visualize the subject and comparable properties. Special photos using wide-angle lens and aerial photos should be utilized wherever feasible. Original, colour photographs should be included in all copies of the report.

#### 4.30 Addenda

Addenda items are graphic aids that are not placed in the body of the report.

- a. Include enough maps, plans and photographs to show clearly all aspects of the property, plot plan, building outline plan and location map, to enable the reader to visualize and understand the subject property and any appraisal problems. Any details of comparative or appraisal data not contained in the Analysis and Conclusion part of the report should also be included.
- b. Full utilization of plans, maps and photographs referred to in the main body of the report reduces descriptive data.
- c. The number of displays will vary greatly with the type of property and the type of report.

#### 4.31 Indexes

An index is a comparable sale, listing, rental or option, etc.

- a. A comparable is used as an indicator of sale price, cost or rent, etc., also known as an index. While there is nothing wrong with the use of the word “comparable”, it is very loose in its definition, since dissimilar things can be compared without providing an indication of value. Furthermore, the use of the word index can be applied to

both sales and listings or any other data used.

- b. Indexes should be numbered in order through the whole appraisal regardless of type, for example, land indexes nos. 1-2-3-4, property indexes nos. 5-6-7-8. This makes for easy reference and prevents confusion in reading the appraisal. Plot each index on a map with reference number, showing the location of the index relative to the subject property.
- c. Indexes details should be put in the addenda and be referenced or shown on a chart in the body of the appraisal.

#### 4.32 Appraiser's Qualifications

- a. Academic Qualifications
- b. Membership in professional real estate organizations
- c. Pertinent practical experience.
- d. If the appraiser is member of a professional real estate organization that has a mandatory recertification program; the appraiser must certify that he has satisfied the requirements of such a recertification program.

**APPENDIX A****Statement of Limiting Conditions and Critical Assumptions****LIMITING CONDITIONS**

1. This report is prepared at the request of (client) for the purpose of an appraisal of market value to assist in ( ). It is not reasonable for any person other than ( ) to rely upon this appraisal without first obtaining written authorization from (client) and this appraiser. The report is prepared on the assumption that no other person will rely on it for any other purpose and that all liability to all such persons is denied.
2. While expert in appraisal matters, the author is not qualified and does not purport to give legal advice. It is assumed that:
  - (1) a legal description as furnished by ( ) is correct;
  - (2) title to the property is good and marketable;
  - (3) there are no encroachments, encumbrances, restrictions, leases or covenants that would in any way affect the valuation, except as expressly noted herein;
  - (4) the existing use is a legally conforming use which may be continued by any purchaser from the existing owner, except as expressly noted herein;
  - (5) rights of way, easements or encroachments over other real property and leases or other covenants noted herein are legally enforceable.

Because these assumptions have been made, no investigation, legal or otherwise, has been undertaken which would verify these assumptions, except as expressly noted herein.

3. The author is not a qualified surveyor (and no legal survey concerning the subject property has been provided). Sketches, drawings, diagrams, photographs etc. are presented in this report for the limited purpose of illustration and are not to be relied upon in themselves.
4. The author is not qualified to give engineering advice. It is assumed that there are no patent or latent defects in the subject improvements, that no objectionable materials are present, that they are structurally sound and in need of no immediate repairs, unless expressly noted within this report. No soil tests for either load bearing capacity or contamination have been done, nor have tests been done of the heating, plumbing, electrical, air-conditioning or other systems and, for the purpose of this opinion, they are assumed to be in good working order.
  5. No investigation has been undertaken with the local zoning office, the fire department, the buildings inspector, the health department or any other government regulatory agency unless such investigations are expressly represented to have been made in this report. The subject property must comply with such government codes and regulations and, if it does not comply, its non-compliance may affect market value. To be certain of compliance, further investigations may be necessary.

6. Market data has been obtained, in part, from documents at the land registry office, or as reported by the real estate board. As well as using such documented and generally reliable evidence of market transactions, it was also necessary to rely on hearsay evidence. Except as noted herein, a reasonable attempt has been made to verify all such information.
7. Because market conditions, including economic, social and political factors, change rapidly and, on occasion, without warning, the market value expressed as of the date of this appraisal cannot be relied upon to estimate the market value as of any other date except with further advice of the appraiser.
8. The compensation for services rendered in this report does not include a fee for court preparation or court appearance, which must be negotiated separately. However, neither this nor any other of these limiting conditions is an attempt to limit the use that might be made of this report should it properly become evidence in a judicial proceeding. In such a case, it is acknowledged that it is the judicial body which will decide the use of the report which best serves the administration of justice.
9. The appraisal has been prepared on the premise that the appraised property is free and clear of all liens or encumbrances with the exception of normal mortgage financing.
10. The distribution of the total valuation between land and improvements applies only under the proposed program of property utilization and is invalidated if the appraisal is used for any other purpose.
11. Information identified in this report as being furnished by others is believed to be reliable, and has been checked to the best of the appraiser's ability, although no responsibility is assumed for its accuracy.

#### CRITICAL ASSUMPTIONS

Example: Highest and Best Used is based on an assumed change of zoning.



**APPENDIX B****Certification of Appraiser**

I certify that, to the best of my knowledge and belief:

- the statements of fact contained in this report are true and correct.
- the reported analyses, opinions and conclusions are limited only by the reported assumptions and limiting conditions, and are my personal, unbiased, professional analyses, opinions and conclusions.
- I have no present or prospective interest in the property that is the subject of this report, and I have no personal interest or bias with respect to the parties involved.
- my compensation is not contingent upon the reporting of a predetermined value or direction in value that favours the cause of the client, the amount of the value estimate, the attainment of a stipulated result, or the occurrence of a subsequent event.
- I have made a personal inspection of the property that is the subject of this report on

**S** This report has been prepared, in conformity with the *Uniform Standards of Professional Appraisal Practice* (USPAP). For all appraisals completed in the province of Quebec, the appraisal report, as a minimum requirement, meets “*les Normes de pratique professionnelle*” adopted by l’Ordre des Évaluateurs Agréés du Québec and the *Uniform Standard of Appraisal Practice* (USPAP - canadian version), if they are compatible with “*les Normes de pratique professionnelle*” adopted by l’Ordre des Évaluateurs Agréés du Québec.

\_\_\_\_\_  
(Date)

- no one provided professional assistance to the person signing this report.
- My final estimate of value as of \_\_\_\_\_ is \$ \_\_\_\_\_.  
(Date)

\_\_\_\_\_  
(Signature of Appraiser)

\_\_\_\_\_  
(Date)

## APPENDIX C

# Exposure Time and Marketing Time Definitions

**EXPOSURE TIME** has been defined in the Dictionary of Real Estate Appraisal ( Third Edition, Chicago, Appraisal Institute, 1993) as:

The time a property remains on the market.

The estimated length of time the property interest being appraised would have been offered on the market prior to a hypothetical consummation of a sale at market value on the effective date of the appraisal; a retrospective estimate based upon an analysis of past events assuming a competitive and open market. Exposure time is always presumed to occur prior to the effective date of the appraisal. The overall concept of reasonable exposure encompasses not only adequate, sufficient and reasonable time but also adequate, sufficient, and reasonable effort.

The estimate of the time for reasonable exposure is not intended to be a prediction of a date of sale or a one-line statement. Instead, it is an integral part of the analyses conducted during the appraisal assignment.

**The estimate may be expressed as a range and can be based on one or more of the following:**

- statistical information about days on market;
- information gathered through sales verification; and,
- interviews of market participants.

Related information garnered through this process include the identification of typical buyers and sellers for the type of real estate involved and typical equity investment levels and/or financing terms.

\*\*\*\*\*

**MARKETING TIME** has been defined in that same dictionary as:

The time it takes an interest in real property to sell on the market subsequent to the date of an appraisal.

Reasonable marketing time is an estimate of the amount of time it might take to sell a property interest in real estate at the estimated market value level during the period immediately after the effective date of the appraisal; the anticipated time required to expose the property to a pool of prospective purchasers and to allow appropriate time for negotiation, the exercise of due diligence, and the consummation of a sale at a price supportable by concurrent market conditions.

The estimate of marketing time is an integral part of the analysis conducted during the appraisal assignment. **The estimate may be expressed as a range and can be based on one or more of the following:**

- statistical information about days on market;
- information gathered through sales verification;
- interviews of market participants; and
- anticipated changes in market conditions.

*Note: The key difference between these two terms is that exposure time is presumed to precede the effective date of the appraisal whereas marketing time is considered the period immediately following the effective date of the appraisal.*

## APPENDIX D

### USPAP STANDARD RULE 2-2 \*\*\* REPORT COMPARISON SHEET

The essential difference among the three options is in the use and application of the terms **describe**, **summarize** and **state**. **Describe** is used to connote a comprehensive level of detail in the presentation of information. **Summarize** is used to connote a more concise presentation of information. **State** is used to connote the minimal presentation of information.

a) Self-Contained Appraisal Report (narrative report)	b) Summary Appraisal Report (Form Report)	c) Restricted Appraisal Report (Letter report)
1. identify and <b>describe</b> the real estate being appraised	1. identify and provide a summary description of the real estate being appraised	1. identify the real estate being appraised
2. <b>state</b> the real property interests being appraised	2. <b>state</b> the real property interests being appraised	2. <b>state</b> the real property interests being appraised
3. <b>state</b> the purpose and intended use of the appraisal	3. <b>state</b> the purpose and intended use of the appraisal	3. <b>state</b> the purpose and intended use of the appraisal
4. define the value to be estimated	4. define the value to be estimated	4. <b>State</b> and reference a definition of the value to be estimated
5. <b>state</b> the effective date of the appraisal and the date of the report	5. <b>state</b> the effective date of the appraisal and the date of the report	5. <b>state</b> the effective date of the appraisal and the date of the report
6. <b>state</b> the extent of the process of collecting, confirming in reporting data Comment:...the full extent of the process should be apparent to the reader in the contents of the report.	6. <b>summarize</b> the extent of the process of collecting, confirming in reporting data Comment:...the full extent of the process may not be apparent to the reader in the contents of the report.	6. <b>describe</b> the extent of the process of collecting, confirming in reporting data Comment:...the full extent of the process will not be apparent to the reader in the contents of the report.
7. <b>state</b> all assumptions and limiting conditions that affect the analyses, opinions and conclusions	7. <b>state</b> all assumptions and limiting conditions that affect the analyses, opinions and conclusions	7. <b>state</b> all assumptions and limiting conditions that affect the analyses, opinions and conclusions
8. <b>describe</b> the information considered, the appraisal procedures followed, and the reasoning that supports the analyses, opinions, and conclusions	8. <b>summarize</b> the information considered, the appraisal procedures followed, and the reasoning that supports the analyses, opinions, and conclusions	8. <b>State</b> the appraisal procedures followed, <b>state</b> the value conclusion and reference the existence of specific file information in support of the conclusions
9. <b>describe</b> the appraiser's opinion of the highest and best use of the real estate, when such an opinion is necessary and appropriate	9. <b>summarize</b> the appraiser's opinion of the highest and best use of the real estate, when such an opinion is necessary and appropriate	9. <b>State</b> the appraiser's opinion of the highest and best use of the real estate, when such an opinion is necessary and appropriate
10. explain and support the exclusions of any of the usual valuation approaches	10. explain and support the exclusions of any of the usual valuation approaches	10. <b>state</b> the exclusions of any of the usual valuation approaches
11. <b>Describe</b> any additional information that may be appropriate to show compliance with, or clearly identify and explain permitted departures from, the specific guidelines of Standard 1 (USPAP)	11. <b>summarize</b> any additional information that may be appropriate to show compliance with, or clearly identify and explain permitted departures from, the specific guidelines of Standard 1 (USPAP)	11. Contain a prominent use restriction that limits reliance on the report to the client and warns that the report cannot be understood properly without additional information in the workfile of the appraiser, and clearly identify and explain permitted departures from the specific guidelines of Standard 1 (USPAP)
12. Include a signed certification in accordance with Standards Rule 2 - 3 (USPAP)	12. Include a signed certification in accordance with Standards Rule 2 - 3 (USPAP)	12. Include a signed certification in accordance with Standards Rule 2 - 3 (USPAP)

Note: Explanatory comments have not been included in this chart, except for excerpt of Comment on 6.

## APPENDIX E

The following is the recognized order for performing adjustments; although not mandatory, it is recommended in order to have consistency in appraisal practices. Adjustments can be performed in percentage or as a lump sum.

<b>ORDER OF ADJUSTMENTS</b>		
<b>Item</b>	<b>Adjustment Type</b>	<b>Explanation or Examples</b>
1	Rights Conveyed	<b>S</b> Easement vs none on a property
2	Financing Terms: <b>S</b> convert to cash equivalency	<b>S</b> adjust for rate below market <b>S</b> example in text includes adjustment of list price to sale price in this category
3	Motivation: <b>S</b> duress	<b>S</b> self-explanatory
4	Market conditions: <b>S</b> time	<b>S</b> self-explanatory
5	Other: <b>S</b> Location <b>S</b> Physical Characteristics <b>S</b> etc..	<b>S</b> self-explanatory

**Source:** *“Basics of real Estate Appraising”* 2<sup>nd</sup> Edition.

**Note:** Adjustments **must be supported** with market analyses, studies, etc.. To avoid subjectivity in the analyses and conclusions of value.

## APPENDIX F

### User Pay Project-Appraisal Terms of Reference

#### Checklist for Major Components of Appraisal Market Analysis Report

This checklist is provided as an unofficial reference for appraisers applying the “user pay” appraisal terms of reference, and for reviewers who are ensuring compliance with the terms of reference. The checklist is not an official statement of the requirements of the terms of reference, merely a guide to facility adherence to the requirements. If there is any omission or contradiction between this checklist and the terms of reference, the terms of reference prevail. This is not intended as a comprehensive appraisal review checklist to ensure full compliance with all of the requirements, rather, a listing of the major components to ensure that the Department can apply the opinions/conclusions of the appraiser for the various functions of the report.

#### **Major appraisal compliance**

1. Market value of land as if vacant
2. Market value of the subject property
3. Effective age, economic life and remaining economic life of the building

#### **Major market analysis component**

1. Analysis of comparable leases, with as much data provided on each comparable as is reasonably available in the subject market
2. Net effective market rent by type of space
3. Analysis to stabilized O&M elements
4. Itemization of O&M elements to support conversion of rent from net to gross
5. Gross effective market rent by type of space
6. Identification of any difference between PWGSC ‘ s definitions of the net effective market rent and gross Effective market rent and definitions applied in current practice in the local market and an analysis of the Impact of the difference on the rents
7. Table providing rental rate variations for factors such as terms of lease, size of a space or location within the building; **or explanation that there are no such variations**
8. Forecast of market rents for April 1<sup>st</sup>, 1997 and April 1<sup>st</sup>, 1988

# Appraisal report Terms of Reference

## User Pay Project

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### **1.0 Self-Contained Appraisal (Narrative) Format**

#### **Part I - Introduction**

- 1.1 Title Page
- 1.2 Letter of Transmittal
- 1.3 Table of Contents
- 1.4 Photographs
- 1.5 Summary of Important Facts and Conclusions
- 1.6 Statement of Limiting Conditions and Critical Assumptions

#### **Part II - Factual Data**

- 1.7 Definition of the Appraisal Problem
- 1.8 Scope
- 1.9 Identification of the Property
- 1.10 Area and City Data
- 1.11 Neighbourhood Data
- 1.12 Site Data
- 1.13 Services Available to the Site
- 1.14 Description of the Buildings
- 1.15 Site Improvements
- 1.16 Assessed Value and Annual Taxes
- 1.17 Lease Details
- 1.18 Land Use Controls (Zoning, etc.)

#### **Part III - Analysis and Conclusion**

- 1.19 Analysis of Highest and Best Use
- 1.20 Appraisal Analysis
- 1.21 Land Value as if Vacant
- 1.22 Estimated Value by the Cost Approach
- 1.23 Estimated Value by the Income Approach
- 1.24 Estimated Value by the Direct Comparison Approach
- 1.25 Reconciliation and Final Estimate of Value
- 1.26 Certification

#### **Part IV - Supporting Data**

- 1.27 Displays
- 1.28 Addenda
- 1.29 Indexes
- 1.30 Appraiser's Qualifications

## **2.0 Self-Contained Appraisal report (Narrative Report) Standards**

### **Part I - Introduction**

#### **2.1 Title Page**

This includes:

- a. name of owner (i.e., Her Majesty the Queen)
- b. address of the property (or a brief legal description, where no postal address is available)
- c. type of property (i.e., office building)
- d. name of the individual making the report
- e. name of the person to whom the report is addressed.

#### **2.2 Letter of Transmittal**

A normal letter including:

- a. address of appraiser
- b. date
- c. name and address of addressee
- d. the usual salutation
- e. date and source of authorization to make the appraisal
- f. identification of value and interest appraised
- g. effective date of the appraisal
- h. any other particulars or factors that need to be drawn to the attention of the reader
- i. value conclusion
- j. signature of appraiser (while more than one appraiser may work on the appraisal assignment, **the letter must only be signed by the appraiser designated responsible for the value conclusion and supporting analysis**).

#### **2.3 Table of Contents**

This is imperative for reports containing numerous headings and several pages.

#### **2.4 Photographs**

A single enlarged front/side angle view of the building is required. Additional photographs of the subject(s) should be included in the addenda. Original photographic prints or quality, colour photocopies (not black and white xerox copies) should be in all copies of the appraisal report.

#### **2.5 Summary of Important Facts and Conclusions**

Limited to basic facts and value estimate of each approach.

#### **2.6 Statement of Limiting Conditions and Critical Assumptions**

Limiting conditions can be a standard prepared form to which should be added any extraordinary conditions. Sample conditions are included in Appendix A.

**Under no circumstances should the limiting conditions restrict the Crown's copyright to the appraisal report when commissioned under authority of the Department's standard contract for appraisal services.**

Critical assumptions on which the value conclusion is based should be clearly itemized separately. These are assumptions made by the appraiser or by client instructions in respect to a matter which is critical to the value conclusion, e.g., assumes that all leases are for a five year term (see Appendix A).

## **Part II - Factual Data**

### **2.7 Definition of the Appraisal Problem**

- a. purpose of the appraisal (to estimate market value of the property and market rent for the space in the building)
- b. definition of value required
- c. function of the appraisal (estimate of market value for accounting and performance evaluation purposes and estimate of market rent in support of negotiations with tenants)

*[Note that for Asset Management Plan Purposes, PWGSC may also include the requirement for the market value of the subject property, assuming the building were empty, for disposal purposes. This or other additional TOR may be required at the discretion of PWGSC regions.]*

- d. property rights and interests appraised (fee simple)
- e. effective date of the appraisal (date of inspection)

### **2.8 Scope**

The appraiser must describe the extent of the process of collecting, confirming and reporting data.

### **2.9 Identification of the Property**

This includes not only any municipal address but also a legal description to clearly identify the property. If the legal description is of a lengthy nature, it may be referred to and included in the addenda. It is important that the identification of the property be such that, if there is no actual municipal address, sufficient identification data is given over and above the legal description to clearly identify the property.

### **2.10 Area and City Data**

This data may be minimized but should clearly indicate the geographic location of the community and include any social, political or economic data pertinent to the subject property and its value.

### **2.11 Neighbourhood Data**

A social, political and economic description of the neighbourhood must be included. A fully reported analysis of the neighbourhood and its trends as they affect the subject property is required. Refer also to paragraph 3.1 of these standards.



## 2.12 Site Data

This includes:

- a. size, shape and frontage
- b. location of the site with respect to side streets, within the block or within the neighbourhood
- c. details with respect to topography, easements, soil conditions, adjacent properties either side of the subject property and opposite to the subject property, and remarks in respect to whether or not they are detrimental to or harmonious with the subject property
- d. any particular hazardous factors inherent in the immediate location of the property, i.e., floods, odours, etc. (refer to Neighbourhood Data)
5. Observations regarding environmental contamination on the subject site or from adjoining properties.

## 2.13 Services Available to the Site

These include:

- a. the actual municipal services and utilities available or whether the property is serviced with a well and septic tank (the latter condition may be included in Site Improvements in paragraph 2.15)
- b. the size and capacity of the services, where the subject property is to be redeveloped or is vacant land. This is particularly important in relation to highest and best use.

## 2.14 Description of the Buildings

The extent and detail of the descriptions of the buildings depend on the type of report, but the minimum requirements are to indicate:

- a. type of building and age
- b. basic type of structure and building materials used in the main components
- c. dimensions by square metre measurements
- d. description of the rentable areas, where applicable, including a statement of the method (or source) of measurements used and the type of occupancy
- e. type and style of equipment
- f. physical condition of building and central systems, functional design and quality as a basis for depreciation.

## 2.15 Site Improvements

These include such items as landscaping, driveways, retaining walls, and other factors of improvement to the site, with the exception of the actual buildings constructed on the site.

## 2.16 Assessed Value and Annual Taxes

Provide the current assessed value and tax rate and indicate the possibility of any significant changes. Comment briefly on whether the subject's assessed value appears equitable. Being federal property, the subject is subject to federal grants in lieu of property taxes. However, for market value purposes it is important to indicate any significant difference that may exist between assessed value and value for grant in lieu of tax purposes.

## 2.17 Lease Details

This section of the report should include a summary of the key points of the generic Occupancy Instrument and Master Occupancy Agreement used by Public Works and Government Services Canada with its tenants, in order to compare and contrast these agreements with the market leases analyzed in subsequent sections of the report.

## 2.18 Land Use Controls (Zoning, etc.)

Describe the nature and detail of any land use controls, including zoning, official plans, and titular restrictions that affect the subject property.

- a. Since the property is government owned and may be either not zoned or zoned for a public/institutional type of use, give an opinion with support as to the probable zoning if it were under private ownership. State whether the subject property represents a conforming or non-conforming use with respect to the current land use controls.
- b. Indicate any potential rezoning or change in land use control and whether any applications for rezoning may have been lodged, and reference any current or proposed land use studies or statutory plan overlays.
- c. Since legal land use is one of the predetermining factors of the highest and best use, the land use controls and the relationship of the property subject to the zoning, i.e., conforming or non-conforming, and other factors in respect to land use as required under zoning or other land use restrictions, are of the utmost importance and must be clearly defined.
- d. Include copy of pertinent zoning map in addenda.

## Part III - Analysis and Conclusion

### 2.19 Analysis of Highest and Best Use

Include a definition of highest and best use, stating the source of the definition. The highest and best use conclusion must be logical, reasonable, legal (particularly zoning), marketable and one for which there is a demand. Provide a narrative analysis leading to the highest and best use conclusion and clearly state the conclusion. *[Note that there may be an additional requirement to permit recognition of a highest and best use conclusion indicating redevelopment of the site should the TOR be modified to include the requirement for market value (with an empty building) for disposal purposes.]*

## 2.20 Appraisal Analysis

This constitutes an explanation of the reasons and thinking behind the methods used in the valuation, to prepare the client for the appraisal techniques that follow. If it is not feasible to carry out any of the three basic approaches to value, the reasons must be given.

## 2.21 Land Value as if Vacant

Normally, the direct comparison method will be used to support the estimate of land value. The following information is required in the report when this approach is applied:

- a. The indicated value of land should be supported by confirmed sales of similar lands having a similar highest and best use.
- b. Differences must be analyzed, adjustments fully explained, supported, and **summarized in chart form**.
- c. Listings and offerings may be used as supporting data only. Minimum sales data should include:
  - registered deed or certificate of title number
  - price
  - date of sale
  - date of registration
  - vendor/purchaser
  - dimensions/area
  - shape
  - topography
  - zoning/land use designation
  - rate per unit
  - other factors
- d. A comment should be made on the value of the subject property indicated by each index property. Plot each index on a map with reference number, showing location relative to the subject.

When other methods of land valuation are being applied (abstraction, extraction, land residual, subdivision methods), the appraiser must provide sufficient justification of all key elements to the application of the method selected. For example, explain and detail the method of attributing value to the building in the abstraction or extraction methods. Wherever possible, adjustment or other comparison charts should be used to assist the reader in following the appraisal analysis.

## 2.22 Estimated Value by the Cost Approach

When used, this section shall be in the form of computative data arranged in sequence beginning with the reproduction or replacement cost, supported by statements of the source of figures used. When costing manuals are used, a copy of the worksheet is to be included in the addenda. The dollar amounts

of depreciation should be explained in narrative form and broken down wherever possible into physical, functional and external depreciation.

### 2.23 **Estimated Value by the Income Approach**

The data used must be factual and supported, and shall include:

- a. an estimated potential gross economic rent (giving consideration to recovery revenue). In analysing comparable market rent indexes, the appraiser must take incentives into consideration.
- b. allowance for vacancy and credit losses leading to the estimate of effective gross rent
- c. an itemized estimate of expenses and reserves
- d. source of itemized estimates
- e. the capitalization process, explained and supported by statement of sources of rates and factors from the market.

**Wherever practical and relevant**, at least two methods of capitalization should be used to convert the net operating income into an indication of the market value of the property.

### 2.24 **Estimated Value by the Direct Comparison Approach**

The following requirements apply to this approach:

- a. Index sales used must be confirmed. The indexes must be plotted on an appropriate map, showing their location relative to the subject's location.
- b. Sufficient explanation and data must be provided on each index property so that it can be broken down into units for comparison. Minimum sales data should include:
  - registered deed or certificate of title number
  - price
  - date of sale
  - date of registration
  - vendor/purchaser
  - dimensions/area of lot
  - shape of lot
  - zoning/land use designation
  - dimensions/area of building(s)
  - description of building(s)
  - description of significant site improvements
  - rate per unit
  - other factors
- c. Differences must be analyzed, adjustments fully explained and supported, to indicate the reasoning behind the value estimates, and **summarized in chart form**.

## 2.25 Reconciliation and Final Estimate of Value

Where two or more methods have been used, the merits of each method, the weight and reasoning given the indicated values shall be analyzed in arriving at the final conclusion. Where only one method has been used, only a final conclusion is required.

## 2.26 Certification

The standard form certification, certifying that the appraiser has inspected the property and has no interest in same. While more than one appraiser may work on the appraisal **the certification must only be signed by the appraiser designated responsible for the value conclusion.** (See Appendix B).

## Part IV - Supporting Data

### 2.27 Displays

Displays are graphic aids placed in the body of the report.

- a. Graphic form involves the use of tables or pictures to convey information.
- b. Wherever possible, graphic aids (tables, maps, photos, etc.) should be placed in association with the descriptive reference. This method will place the graphics either on the page facing the narrative or as part of the narrative.
- c. Photographs are of particular significance and should be of such a size and quality to enable the reader to visualize the subject and comparable properties. Special photos using wide-angle lens and aerial photos should be utilized wherever feasible. Original, colour photographs should be included in all copies of the report.

### 2.28 Addenda

Addenda items are graphic aids that are not placed in body of the report.

- a. Include enough maps, plans and photographs to show clearly all aspects of the property, plot plan, building outline plan and location map, to enable the reader to visualize and understand the subject property and any appraisal problems. Any details of comparative or appraisal data not contained in the Analysis and Conclusion part of the report should also be included.
- b. Full utilization of plans, maps and photographs referred to in the main body of the report reduces descriptive data.
- c. The number of displays will vary greatly with the type of property and the type of report.

## 2.29 Indexes

An index is a comparable sale, listing, rental or option, etc.

- a. A comparable is used as an indicator of sale price, cost or rent, etc., also known as an index. While there is nothing wrong with the use of the word “comparable”, it is very loose in its definition, since dissimilar things can be compared without providing an indication of value. Furthermore, the use of the word index can be applied to both sales and listings or any other data used.
- b. Indexes should be numbered in order through the whole appraisal regardless of type, for example, land indexes nos. 1-2-3-4, property indexes nos. 5-6-7-8. This makes for easy reference and prevents confusion in reading the appraisal. Plot each index on a map with reference number, showing the location of the index relative to the subject property.
- c. Indexes details should be put in the addenda and be referenced or shown on a chart in the body of the appraisal.

## 2.30 Appraiser's Qualifications

- a. Academic Qualifications
- b. Membership in professional real estate organizations
- c. Pertinent practical experience.
- d. If the appraiser is member of a professional real estate organization that has a mandatory recertification program; the appraiser must certify that he has satisfied the requirements of such a recertification program.

### **3.0 Special Requirements**

#### **3.1 Area and Neighbourhood Analysis**

These sections of the report should include an overview of market conditions at the effective date of appraisal which includes:

- a. total office, warehouse, etc. space surveyed.
- b. federal presence.
- c. availability of significant blocks of comparable space.
- d. summary of current rent levels, both for recently negotiated leases and asking rates.
- e. indication of extent of inducements typically being offered in the market.
- f. current construction activity for comparable buildings.
- g. any known/planned construction - size, location and anticipated in-service date.
- h. vacancy and absorption rates and trends.

#### **3.2 Exposure Time**

The report must contain, with justification, the appraiser's estimate of exposure time associated with the market value estimate.

#### **3.3 Marketing Time**

The report must contain, with justification, the appraiser's estimate of marketing time.

#### **3.4 Appraisal Approaches**

As also stated in paragraph 2.20, the appraiser must consider and apply as appropriate each of the three traditional approaches to value. Omission of any of the traditional approaches must be explained and be justified in the report.

#### **3.5 Land Value**

Regardless of the approaches to be applied, the appraiser must provide a professionally substantiated estimate of the market value of the land pursuant to its highest and best use as if vacant and available.

#### **3.6 Effective Age/Economic Life**

Regardless of the approaches to be applied the appraiser must provide is substantiated opinion of the effective age, economic life and remaining economic life for the building.

#### **3.7 Market rent-stand alone appendix**

In order to assist PWGSC in its negotiation of the rental rate with federal occupant tenants of the subject building, the report must include a stand-alone appendix that estimates “net effective market rent” and “gross effective market rent” as follows:

- .1 Estimate of “net effective market rent”. The following definitions applied to “net effective market rent” for purposes of this assignment.

Market rent is the rental income that a property would most probably command in the open market; indicated by the current rents paid and asked for comparable space as of the date of appraisal (The Dictionary of real Estate Appraisal, third edition, published by the appraisal Institute).

Net rent is that rent received by the landlord where the lessee assumes all expenses of operating the property, including both fixed and variable expenses; except that the landlord is responsible only for structural maintenance and investment management.

Net effective rent is the net a rent that subtracts the present value of all forms of inducements provided by the landlord to the tenant (free rent, cash payments, etc.) from the present value of the net lease payments, then amortizes this remainder over the terms of the least.

Where the above definition of “net effective market rent” differs from market practice in the subject’s locale the appraiser must identify any significant differences and indicate their impact on the rental rate conclusions.

- .2 In establishing and stabilizing the market rent potential for the subjects, provide the answer as much detail on comparable market rents as possible without jeopardize saying in the confidentiality of the source of the that. Preference must be given to comparable rents that have been negotiated between landlord and tenant and where total federal government is not the ten. The requirement for detail on comparable leases is a expanded from the traditional narrative appraisal reports.

**Wherever possible**, the following details are required on all comparable leases:

- a Name/address of building.
- b. Year construction and the effective age of buildin
- c. Photograph of the interior, if possible.
- d. Brief building description: a statement of the type of construction, equipment, services provided, type of parking facility, whether it meets the standard government requirements.
- e. Type of tenants within the building.
- f. The contact, whether the owner or leasing agent.
- g. Assessment for property taxes.
- h. Typical rentable area by floor.
- i. Vacant or available space by floor, if any.
- j. Rental rates - until the statement of the contract rent (face rent), analyzed to indicate net effective rate. Clarify how the rental rate is referenced in the local market (e. g., triple net, net, absolute net, etc..) and define the responsibilities of the landlord and lessee associated with the rental rate. Indicate if the rent is for “base building”, for a “turnkey” accommodation or for something in between the two.
- k. Escalation - list of items comprising O&M costs and taxes which are escalated and the base year(s) for escalation purposes.
- l. Incentives - current incentives being offered, if any.



- m. Lease terms - if rental rates vary according to length of lease, provide details.
  - n. Fit up - items forming part of the quoted rental rate, including their value.
  - o. Date - when the lease was negotiated.
  - p. Description of neighborhood, zoning.
  - q. Proximity to transportation services.
- .3 Provide a detailed comparison, with adjustments explained and justified, in analyzing the comparables in support of the subject's net effective market rental rate estimates, and summarize in an adjustment chart. Adjustments should consider factors such as:
- a. Tenants inducements
  - b. Date of lease
  - c. Locational attributes
  - d. Size of space leased
  - e. physical property characteristics and amenities (i.e. Quality)
  - f. Operating expenses and realty taxes
  - g. Parking provisions
  - h. Floor level
  - i. Base rent step-ups
  - j. Term of lease
  - k. Motivational and other adjustments.
- .4 While for the purpose of estimating market value, it is acceptable to provide one blended estimate of market rent (expressed in dollars per square metre) for each type of space in the subject building (e. g., main floor commercial, storage, parking and office space), **if the market recognizes market rental rate differences** for factors such as terms of lease, size of space or location within the building, the appraiser must identify all such factors and must provide a table showing market rent variations for each factor. Any market rent variations must be supported with market evidence. The variations can be expressed as percentage adjustments to the blended market rent estimate or as individual unit rates.
- .5 The appraiser must also provide an estimate of "gross effective market rent", adjusting the net effective market rent to "gross" in order to reflect the responsibilities of the landlord and tenant as defined in the attached list of PWGSC's components of gross effective market rent. If there is a difference between how the local market would define "gross effective market rent" and how it would be defined according to PWGSC, the appraiser must identify any significant differences and indicate their impact on the rental rate conclusions.

It estimating "gross effective market rent", the appraiser will undertake an analysis of the current year and two previous years of actual cost data (provided by PWGSC) and will stabilize the expenses information for subject tempering this historical subject property data with market norms for space within comparable buildings. The appraiser must clearly show how the "net effective market rent" has been converted to a "gross effective market rent".

**In converting a net effective market rent to gross effective market rent, the appraiser must ensure that no double counting of expense items has occurred.**

- .6 Given the details provided in this stand-alone appendix that would normally be part of the narrative portion of the Income Approach, the appraiser need only make reference within the body of the report to the information contained in this appendix that has been applied a day in the Income Approach.

### **3.8 Tenant improvements**

Both the market value of the property and the market analysis are to consider “base building” only. Tenant improvements are to be considered only if treated as an inducement offered by the landlord which must be taken into account in the analysis of the “effective” rent.

For this assignment, “base building” is defined as space within a completed shell, which finished floors and ceilings, windows, finished columns, finished perimeter walls and finish walls separating it from other space, window and floor coverings, and entry and exit doors; along with the requisite building operating system and equipment to provide the services and maintain the condition normally provided in in comparable space.

### **3.9 Forecast of Market Rents**

The appraiser will also provide a forecast with explanation, for the market rent effective April 1<sup>st</sup>, 1997 and April 1<sup>st</sup>, 1998.

### **3.10 Assume Five-year Leases**

For the purposes of the stand-alone appendix on market rent, all leases in the subject building are assumed to be five years in length, beginning on the effective date of appraisal.

### **3.11 Income Approach - Effective Gross Revenue**

In converting potential gross revenue to effective gross revenue, the appraiser must take into account both the historical occupancy rate of the subject property and market vacancy levels for comparable space and provide this data in the report.

### **3.12 Assume Property is Free of Environmental Contamination**

The appraiser is to assume that there is no environmental contamination of any sort on and in the subject property.

### **3.13 Assume Rentable Areas as Provided are Correct**

Further to paragraph 2. 14 (d), the appraiser is to assume that the rentable area(s) for the subject property as provided by PWGSC are current and accurate.

### **3.14 Heritage Designation**

The appraiser must take into account any heritage designations that exist on the subject building.

#### **4.0 Reference Material**

4.1 Attached are the following for the appraiser's reference:

- .1 Copy of generic "Occupancy Instrument" and "Master Occupancy Agreement", which together serve a similar function to a lease, between PWGSC and the tenant department, agency or commission.
- .2 Building Condition Report.
- .3 Identification of PWGSC contact for access to inspect the subject building.
- .4 Identification of location for access to building plans and specifications.

## Appendix A

### Statement of Limiting Conditions and Critical Assumptions

#### LIMITING CONDITIONS

1. This report is prepared at the request of Public Works and Government Services Canada (PWGSC) for the purpose of an appraisal of market value and market rent to assist in the implementation of "user pay" for federal tenants in PWGSC buildings. It is not reasonable for any person other than the federal government to rely upon this appraisal without first obtaining written authorization from PWGSC and this appraiser. The report is prepared on the assumption that no other person will rely on it for any other purpose and that all liability to all such persons is denied.
2. While expert in appraisal matters, the author is not qualified and does not purport to give legal advice. It is assumed that:
  - (1) a legal description as furnished by PWGSC is correct;
  - (2) title to the property is good and marketable;
  - (3) there are no encroachments, encumbrances, restrictions, leases or covenants that would in any way affect the valuation, except as expressly noted herein;
  - (4) the existing use is a legally conforming use which may be continued by any purchaser from the existing owner, except as expressly noted herein;
  - (5) rights of way, easements or encroachments over other real property and leases or other covenants noted herein are legally enforceable.

Because these assumptions have been made, no investigation, legal or otherwise, has been undertaken which would verify these assumptions, except as expressly noted herein.

3. The author is not a qualified surveyor (and no legal survey concerning the subject property has been provided). Sketches, drawings, diagrams, photographs etc. are presented in this report for the limited purpose of illustration and are not to be relied upon in themselves.
4. The author is not qualified to give engineering advice. It is assumed that there are no patent or latent defects in the subject improvements, that no objectionable materials are present, that they are structurally sound and in need of no immediate repairs, unless expressly noted within this report. No soil tests for either load bearing capacity or contamination have been done, nor have tests been done of the heating, plumbing, electrical, air-conditioning or other systems and, for the purpose of this opinion, they are assumed to be in good working order.

5. No investigation has been undertaken with the local zoning office, the fire department, the buildings inspector, the health department or any other government regulatory agency unless such investigations are expressly represented to have been made in this report. The subject property must comply with such government codes and regulations and, if it does not comply, its non-compliance may affect market value. To be certain of compliance, further investigations may be necessary.
6. Market data has been obtained, in part, from documents at the land registry office, or as reported by the real estate board. As well as using such documented and generally reliable evidence of market transactions, it was also necessary to rely on hearsay evidence. Except as noted herein, a reasonable attempt has been made to verify all such information.
7. Because market conditions, including economic, social and political factors, change rapidly and, on occasion, without warning, the market value expressed as of the date of this appraisal cannot be relied upon to estimate the market value as of any other date except with further advice of the appraiser.
8. The compensation for services rendered in this report does not include a fee for court preparation or court appearance, which must be negotiated separately. However, neither this nor any other of these limiting conditions is an attempt to limit the use that might be made of this report should it properly become evidence in a judicial proceeding. In such a case, it is acknowledged that it is the judicial body which will decide the use of the report which best serves the administration of justice.
9. The appraisal has been prepared on the premise that the appraised property is free and clear of all liens or encumbrances with the exception of normal mortgage financing.
10. The distribution of the total valuation between land and improvements applies only under the proposed program of property utilization and is invalidated if the appraisal is used for any other purpose.
11. Information identified in this report as being furnished by others is believed to be reliable, and has been checked to the best of the appraiser's ability, although no responsibility is assumed for its accuracy.

#### CRITICAL ASSUMPTIONS

Example: It is assumed that all leases are for a five year term.

## Appendix B

### Certification of Appraiser

I certify that, to the best of my knowledge and belief:

- the statements of fact contained in this report are true and correct.
- the reported analyses, opinions and conclusions are limited only by the reported assumptions and limiting conditions, and are my personal, unbiased, professional analyses, opinions and conclusions.
- I have no present or prospective interest in the property that is the subject of this report, and I have no personal interest or bias with respect to the parties involved.
- my compensation is not contingent upon the reporting of a predetermined value or direction in value that favours the cause of the client, the amount of the value estimate, the attainment of a stipulated result, or the occurrence of a subsequent event.
- I have made a personal inspection of the property that is the subject of this report on

**S** This report has been prepared, in conformity with the *Uniform Standards of Professional Appraisal Practice* (USPAP). For all appraisals completed in the province of Quebec, the appraisal report, as a minimum requirement, meets “*les Normes de pratique professionnelle*” adopted by l’Ordre des Évaluateurs Agréés du Québec and the *Uniform Standard of Appraisal Practice* (USPAP - canadian version), if they are compatible with “*les Normes de pratique professionnelle*” adopted by l’Ordre des Évaluateurs Agréés du Québec.

\_\_\_\_\_  
(Date)

- no one provided significant professional assistance to the person signing this report.
- My final estimate of value as of \_\_\_\_\_ is \$ \_\_\_\_\_.  
(Date)

\_\_\_\_\_  
(Signature of Appraiser)

\_\_\_\_\_  
(Date)

APPRAISAL GUIDELINES

# Restricted Appraisal Report (Letter Report)

**PURPOSE**

Public Works and Government Services Canada acts as the real estate broker for the federal government and as such is responsible for the development of required standards. The guideline presented here represents an important part of this task. It will help ensure uniformity of format and content in the appraisal reporting (restricted appraisal report (letter report) format) of the many appraisers providing estimates of value for federal real property decisions.

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- D USPAP Standard Rule 2-2 \*\*\* Report Comparison Sheet
- E Order of Adjustment

## 1.0 PREFACE

- 1.1 The federal government land program covers a wide area and takes many forms - purchase, lease, development, transfer, and expropriation. The funds expended in government land action belong to the public and many individual persons in that public are affected by such action. For this reason, the acquisition and transfer of real property by federal departments must meet the highest standards of fairness, uniformity and efficiency.
- 1.2 The appraisal standards of Public Works and Government Services Canada are based on the acknowledged standards of the major professional appraisal organizations in North America, in particular the Appraisal Institute of Canada (AIC). In its text, *The Appraisal of Real Estate, Canadian Edition* (1992), the AIC defines an appraisal report as follows: "AN APPRAISAL REPORT LEADS THE READER FROM THE DEFINITION OF THE APPRAISAL PROBLEM THROUGH ANALYSIS AND RELEVANT DESCRIPTIVE DATA TO A SPECIFIC CONCLUSION. THE APPRAISER MUST PRESENT ALL FACTS, REASONING, AND CONCLUSIONS CLEARLY AND SUCCINCTLY. THE LENGTH, TYPE AND CONTENT OF APPRAISAL REPORTS ARE DICTATED BY THE CLIENT, REGULATORY REQUIREMENTS, THE COURTS, THE TYPE OF PROPERTY BEING APPRAISED AND THE NATURE OF THE PROBLEM".
- 1.3 The function of an appraisal report in the context of federal real property appraisal is generally to enable someone, other than the appraiser, to make a decision involving the purchase, lease, or exchange of property, based on the value indicated. It may form the basis of judgement by a department to pay more or less than the appraised value, and in the case of two appraisals on the same property, to exercise a judgement as to the value on which the decision should be based. Appraisals required by the federal government are usually needed for negotiation purposes, and, to be of value, must provide the negotiator/reader with the full data, reasoning and analysis of that data. In the circumstance of a restricted appraisal report (letter report), the level of detail required in the actual report is reduced, with full detail available in the appraiser's project file.
- 1.4 The appraiser's report must be documented and supported so as to make evident to an impartial reader the soundness of the estimates%the material should be set forth as simply as possible, in order to achieve effective communication with the reader while conserving the reader's time. No matter how diligently the appraiser has carried out the work, the value of the written report can be diminished by its presentation.
- 1.5 The restricted appraisal report (letter report) with minimum content as defined in this guideline reflects market practice consistent with the standards of appraisal institutes throughout North America. This content provides the client with sufficient detail and explanation to understand the appraiser's reasoning and conclusions when an abbreviated written report is required.
- 1.6 The appraisal report provides the estimates and conclusions necessary to meet the objectives of the client (other branches in PWGSC, other departments, agencies or Crown corporations).



## 2.0 POLICY

- 2.1 The amount of data included in a report depends on the type of property appraised and the judgement of the appraiser. A report that fails to convey necessary background information cannot provide a sound basis for decision making.
- 2.2 In agreement with the Canadian Appraisal Institute of Canada and l'Ordre des Évaluateurs Agréés du Québec, PWGSC recognizes that restricted appraisal reports (letter report) should include the following minimum standards. These are excerpts from the "Uniform Standard of Appraisal Practice" (USPAP - canadian version):
- i) identify the real estate being appraised;
  - ii) state the real property interest being appraised;
  - iii) state the purpose and intended use of the appraisal;
  - iv) state and reference a definition of the value to be estimated;
  - v) state the effective date of the appraisal and the date of the report;
  - vi) describe the extent of the process of collecting, confirming, and reporting data;
  - vii) state all assumptions and limiting conditions that affect the analyses opinions, and conclusions;
  - viii) state the appraisal procedures followed, state the value conclusion and reference the existence of specific file information in support of the conclusion;
  - ix) state the appraiser's opinion of the highest and best use of the real estate, when such an opinion is necessary and appropriate;
  - x) state the exclusion of any of the usual valuation approaches;
  - xi) contain a prominent use restriction that limits reliance on the report to the client and warns that the report cannot be understood properly without additional information in the workfile of the appraiser, and clearly identify and explain any permitted departures from the specific guidelines of STANDARD 1 (USPAP);
  - xii) include a signed certification in accordance with Standards Rule 2-3 (USPAP).
- 2.3 The reasons leading to the appraiser's conclusions must be clearly stated to help the client understand the report.
- 2.4 The report should be enclosed in a suitable cover, preferably cerlox or duotang and not a ring binder. The restricted appraisal (letter report) format is normally conducive to simple stapling.
- 2.5 **Metric units of measurement (or metric followed by imperial in brackets) must be used throughout the report.**
- 2.6 The report is subject to a review procedure against these guideline standards.
- 2.7 The restricted appraisal report (letter report) is a written appraisal report in letter format, containing pertinent subject property data and a value conclusion, as of a specified date. **A restricted appraisal report (letter report) requires the same field work and analysis as a full narrative report.**
- 2.8 The restricted appraisal report (letter report) should only be used where specifically requested in writing by the client department or under unusual circumstances. Normally, such circumstances include updates of self-contained appraisal reports (narrative reports), or reports on low-value or fairly routine properties where comparable data is readily available and the terms of reference and subject property present no unusual appraisal challenges. Generally, restrictive appraisal reports (letter reports) [except perhaps as an update to a self-contained appraisal report (narrative report)] should not be used in expropriation or dispute-resolution circumstances or in any other contentious situation. If complicated appraisal methods, such as discounted cash flow, are required, the self-contained appraisal (narrative) format should be applied. The appraiser is expected, in all circumstances,

to use sound professional judgement in these matters.

- 2.9 Whenever possible and relevant, two or more approaches to value should be applied in the appraisal report; even if the subordinate approach(es) is (are) used only as a rough check on the value derived from the more appropriate or better substantiated approach.
- 2.10 **The appraiser/author must inspect the property being appraised.** However, at PWGSC's request, there may be special situations where interior and complete exterior inspections are not required. When these situations apply, the terms of reference will specify such requirements on a case-by-case basis.
- 2.11 A summarized discussion of **Reasonable Exposure Time (including the kind of real estate at what value range)** must appear in an appropriate section of the restricted appraisal report (letter report) that presents the discussion and analysis of market conditions and be referenced at the statement of the value definition and value conclusion. Refer to Appendix C (1B1) for definition of this term.
- 2.12 A concise section concerning **Marketing Time** must also appear in the restricted appraisal report (letter report). Since marketing time occurs after the effective date of the market value estimate and the marketing time estimate is related to, yet apart from the appraisal process, it is appropriate for the section of the appraisal report that discusses this issue and its implication to appear toward the end of the report after the market value conclusion. Refer to Appendix C (1B1) for a definition of this term.
- 2.13 Appraisers on occasion rely on reports or information prepared by others in making certain decisions in the process of an appraisal. When relying upon the reports of others (with or without reference to specific conclusions from such reports). The following standards apply:

- .1 use reasonable or supported assumptions as the basis for analyses;
- .2 substantiate acceptance of a report or information relied upon that was prepared by others;
- .3 identify reports of others and the specifics that were relied upon and mention as a minimum the author, and the date of the report;
- .4 reveal and explain each apparent discrepancy between any two opinions that were relied upon;
- .5 accept responsibility for any real estate appraisal or analysis opinion of another relied upon for the analysis, opinion or conclusion;
- .6 preserve the report of others that have been relied upon;
- .7 In relying upon reports prepared by others, appraisers should ensure that their errors and omissions insurance coverage is not jeopardized by such reliance.

- 2.14 An appraiser must not use or rely on unsupported conclusions relating to characteristics such as race, color, religion, national origin, gender, marital status, familial status, age, receipt of public assistance income, handicap, or an unsupported conclusion that homogeneity of such characteristic is necessary to maximize the value. An appraiser must ensure that his or her appraisal is impartial, objective and does not illegally discriminate or contribute to illegal discrimination through subjective or stereotypical assumptions.

### 3.0 MINIMUM CONTENT OF A LETTER OR RESTRICTED APPRAISAL REPORT

The minimum content of a letter or restricted Appraisal report is as follows:

- 3.1 name and address of the appraiser;
- 3.2 date of the letter;
- 3.3 name and address of the addressee;
- 3.4 the usual salutation;
- 3.5 date and source of authorization;
- 3.6 purpose and function of the report;
- 3.7 definition of value and identification of the interest appraised;
- 3.8 identification and brief description of the subject property;
- 3.9 effective date of the appraisal;
- 3.10 value conclusion;
- 3.11 estimate of exposure time;
- 3.12 scope, i.e., describe the extent of the process of collecting, confirming and reporting data;
- 3.13 statement of present zoning;
- 3.14 statement of opinion of highest and best use;
- 3.15 brief summary of analysis (see 4.0);
- 3.16 signature of the appraiser;
- 3.17 limiting conditions and critical assumptions (refer to Appendix A for a sample);
- 3.18 appraiser's certification (refer to Appendix B for a sample);
- 3.19 appraiser's qualifications;
- 3.20 significant supporting data.

### 4.0 MINIMUM DATA/ANALYSIS STANDARDS

The following explain the minimum requirement for the "brief summary of analysis" required as per paragraph 3.15 of this guideline.

#### 4.1 For the **cost approach**:

- .1 land indexes adjustment chart;
- .2 land value conclusion;
- .3 statement of reproduction/replacement cost new;
- .4 source of the cost new;
- .5 effective age;
- .6 economic life/remaining economic life;
- .7 physical depreciation, percent or amount and reason(s) why it applies;
- .8 functional depreciation, percent or amount and reason(s) why it applies;
- .9 external depreciation, percent or amount and reason(s) why it applies;
- .10 depreciated replacement/reproduction cost;
- .11 depreciated value of site improvements, listing the improvements costed; and,
- .12 value conclusion.

#### 4.2 For the **income approach**:

- .1 potential gross income by source, such as, parking, office space, retail space, etc.;
- .2 vacancy and bad debt allowance (appropriate to each income source);
- .3 effective gross income;
- .4 expenses, by type (e.g. management, taxes, etc.);
- .5 net operating income;
- .6 capitalization rate and method of derivation;
- .7 value conclusion; and,
- .8 where land or building residual techniques are applied, state appropriate capitalization rates and incomes attributable to land and building.

#### 4.3 For the **direct comparison approach**:

- .1 improved indexes adjustment chart;
- .2 value conclusion.

- 4.4 Where **adjustment charts** are required, the following details must be provided on each index either in the chart in tabular form, or on separate data sheets:
- .1 address or legal description;
  - .2 date of sale;
  - .3 sale price;
  - .4 area of land;
  - .5 zoning;
  - .6 area of building (if direct comparison approach);
  - .7 other appropriate unit data (number of suites, etc.);
  - .8 time adjustment (dollar or percent);
  - .9 time adjusted sale price;
  - .10 list other adjustments (size, location, condition, motivation, etc.) with adjustment amounts quantified as dollar or percentage amounts;
  - .11 adjusted sale price;
  - .12 adjusted sale price per unit of comparison.
- 4.5 The appraiser should only select the most pertinent **supporting data** to include with the letter or restricted appraisal report. Examples may include:
- .1 Graphic aids which involve the use of tables, maps, plot plans, floor plans, photographs, etc., to convey information obscured by narrative style.
  - .2 Of particular relevance to the reader would be a map showing the location of indexes in relation to the subject's location.
- 4.6 **Indexes** are comparable sales and listings or options, etc. The word index means indicator, and this is what comparables are used as. While there is nothing wrong with the use of the word “comparables”, it is very loose in its definition, since dissimilar things can be compared without providing an indication of value. Furthermore, the use of the word index can be applied to both sales and listings or any other data used.
- 4.7 For all restricted appraisal reports (letter reports), the author must include the following information:
- a. Membership in professional real estate organizations;
  - b. If the appraiser is member of a professional real estate organization that has a mandatory recertification program; the appraiser must certify that he has satisfied the requirements of such a recertification program.

## **5.0 BACKGROUND INFORMATION REQUIREMENT**

- 5.1 The depth and degree of research and analysis required is the same as for a full self-contained appraisal report (narrative report). Detailed data and analyses are to be retained on file should a full written report be required at a later date.
  
- 5.2 The background material to be retained on file would normally consist of such data and analysis as: land sales with registration details; notes from interviews with vendors, purchasers, agents; data and explanation supporting adjustments; cost details; market rent comparables; etc. Essentially, this background material should be detailed and complete enough to permit the appraiser to complete a self-contained appraisal report (narrative report) without the need to undertake any additional research or analysis.

## APPENDIX A

# Statement of Limiting Conditions and Critical Assumptions

### LIMITING CONDITIONS

1. This report is prepared at the request of (client) for the purpose of an appraisal of market value to assist in ( ). It is not reasonable for any person other than ( ) to rely upon this appraisal without first obtaining written authorization from (client) and this appraiser. The report is prepared on the assumption that no other person will rely on it for any other purpose and that all liability to all such persons is denied.
2. While expert in appraisal matters, the author is not qualified and does not purport to give legal advice. It is assumed that:
  - (1) a legal description as furnished by ( ) is correct;
  - (2) title to the property is good and marketable;
  - (3) there are no encroachments, encumbrances, restrictions, leases or covenants that would in any way affect the valuation, except as expressly noted herein;
  - (4) the existing use is a legally conforming use which may be continued by any purchaser from the existing owner, except as expressly noted herein;
  - (5) rights of way, easements or encroachments over other real property and leases or other covenants noted herein are legally enforceable.

Because these assumptions have been made, no investigation, legal or otherwise, has been undertaken which would verify these assumptions, except as expressly noted herein.
3. The author is not a qualified surveyor (and no legal survey concerning the subject property has been provided). Sketches, drawings, diagrams, photographs etc. are presented in this report for the limited purpose of illustration and are not to be relied upon in themselves.
4. The author is not qualified to give engineering advice. It is assumed that there are no patent or latent defects in the subject improvements, that no objectionable materials are present, that they are structurally sound and in need of no immediate repairs, unless expressly noted within this report. No soil tests for either load bearing capacity or contamination have been done, nor have tests been done of the heating, plumbing, electrical, air-conditioning or other systems and, for the purpose of this opinion, they are assumed to be in good working order.
  5. No investigation has been undertaken with the local zoning office, the fire department, the buildings inspector, the health department or any other government regulatory agency unless such investigations are expressly represented to have been made in this report. The subject property must comply with such government codes and regulations and, if it does not comply, its non-compliance may affect market value. To be certain of compliance, further investigations may be necessary.
  6. Market data has been obtained, in part, from documents at the land registry office, or as reported by the real estate board. As well as using such documented and generally reliable evidence of market

transactions, it was also necessary to rely on hearsay evidence. Except as noted herein, a reasonable attempt has been made to verify all such information.

7. Because market conditions, including economic, social and political factors, change rapidly and, on occasion, without warning, the market value expressed as of the date of this appraisal cannot be relied upon to estimate the market value as of any other date except with further advice of the appraiser.
8. The compensation for services rendered in this report does not include a fee for court preparation or court appearance, which must be negotiated separately. However, neither this nor any other of these limiting conditions is an attempt to limit the use that might be made of this report should it properly become evidence in a judicial proceeding. In such a case, it is acknowledged that it is the judicial body which will decide the use of the report which best serves the administration of justice.
9. The appraisal has been prepared on the premise that the appraised property is free and clear of all liens or encumbrances with the exception of normal mortgage financing.
10. The distribution of the total valuation between land and improvements applies only under the proposed program of property utilization and is invalidated if the appraisal is used for any other purpose.
11. Information identified in this report as being furnished by others is believed to be reliable, and has been checked to the best of the appraiser's ability, although no responsibility is assumed for its accuracy.

#### CRITICAL ASSUMPTIONS

Example: Highest and Best Used is based on an assumed change of zoning.

**APPENDIX B****Certification of Appraiser**

I certify that, to the best of my knowledge and belief:

- the statements of fact contained in this report are true and correct.
- the reported analyses, opinions and conclusions are limited only by the reported assumptions and limiting conditions, and are my personal, unbiased, professional analyses, opinions and conclusions.
- I have no present or prospective interest in the property that is the subject of this report, and I have no personal interest or bias with respect to the parties involved.
- my compensation is not contingent upon the reporting of a predetermined value or direction in value that favours the cause of the client, the amount of the value estimate, the attainment of a stipulated result, or the occurrence of a subsequent event.
- I have made a personal inspection of the property that is the subject of this report on

**S** This report has been prepared, in conformity with the *Uniform Standards of Professional Appraisal Practice* (USPAP). For all appraisals completed in the province of Quebec, the appraisal report, as a minimum requirement, meets “*les Normes de pratique professionnelle*” adopted by l’Ordre des Évaluateurs Agréés du Québec and the *Uniform Standard of Appraisal Practice* (USPAP - canadian version), if they are compatible with “*les Normes de pratique professionnelle*” adopted by l’Ordre des Évaluateurs Agréés du Québec

\_\_\_\_\_  
(Date)

- no one provided significant professional assistance to the person signing this report.
- My final estimate of value as of \_\_\_\_\_ is \$\_\_\_\_\_  
(Date)

\_\_\_\_\_  
(Signature of Appraiser)

\_\_\_\_\_  
(Date)



## APPENDIX C

# Exposure Time and Marketing Time Definitions

**EXPOSURE TIME** has been defined in the Dictionary of Real Estate Appraisal ( Third Edition, Chicago, Appraisal Institute, 1993) as:

The time a property remains on the market.

The estimated length of time the property interest being appraised would have been offered on the market prior to a hypothetical consummation of a sale at market value on the effective date of the appraisal; a retrospective estimate based upon an analysis of past events assuming a competitive and open market. Exposure time is always presumed to occur prior to the effective date of the appraisal. The overall concept of reasonable exposure encompasses not only adequate, sufficient and reasonable time but also adequate, sufficient, and reasonable effort.

The estimate of the time for reasonable exposure is not intended to be a prediction of a date of sale or a one-line statement. Instead, it is an integral part of the analyses conducted during the appraisal assignment. **The estimate may be expressed as a range and can be based on one or more of the following:**

- statistical information about days on market;
- information gathered through sales verification; and,
- interviews of market participants.

Related information garnered through this process include the identification of typical buyers and sellers for the type of real estate involved and typical equity investment levels and/or financing terms.

\*\*\*\*\*

**MARKETING TIME** has been defined in that same dictionary as:

The time it takes an interest in real property to sell on the market subsequent to the date of an appraisal.

Reasonable marketing time is an estimate of the amount of time it might take to sell a property interest in real estate at the estimated market value level during the period immediately after the effective date of the appraisal; the anticipated time required to expose the property to a pool of prospective purchasers and to allow appropriate time for negotiation, the exercise of due diligence, and the consummation of a sale at a price supportable by concurrent market conditions.

The estimate of marketing time is an integral part of the analysis conducted during the appraisal assignment. **The estimate may be expressed as a range and can be based on one or more of the following:**

- statistical information about days on market;
- information gathered through sales verification;
- interviews of market participants; and
- anticipated changes in market conditions.

*Note: The key difference between these two terms is that exposure time is presumed to precede the effective date of the appraisal whereas marketing time is considered the period immediately following the effective date of the appraisal.*

## APPENDIX D

**USPAP STANDARD RULE 2-2 \*\*\* REPORT COMPARISON SHEET**

The essential difference among the three options is in the use and application of the terms **describe**, **summarize** and **state**. **Describe** is used to connote a comprehensive level of detail in the presentation of information. **Summarize** is used to connote a more concise presentation of information. **State** is used to connote the minimal presentation of information.

a) Self-Contained Appraisal Report (narrative report)	b) Summary Appraisal Report (Form Report)	c) Restricted Appraisal Report (Letter report)
1. identify and <b>describe</b> the real estate being appraised	1. identify and provide a summary description of the real estate being appraised	1. identify the real estate being appraised
2. <b>state</b> the real property interests being appraised	2. <b>state</b> the real property interests being appraised	2. <b>state</b> the real property interests being appraised
3. <b>state</b> the purpose and intended use of the appraisal	3. <b>state</b> the purpose and intended use of the appraisal	3. <b>state</b> the purpose and intended use of the appraisal
4. define the value to be estimated	4. define the value to be estimated	4. <b>State</b> and reference a definition of the value to be estimated
5. <b>state</b> the effective date of the appraisal and the date of the report	5. <b>state</b> the effective date of the appraisal and the date of the report	5. <b>state</b> the effective date of the appraisal and the date of the report
6. <b>state</b> the extent of the process of collecting, confirming in reporting data Comment:...the full extent of the process should be apparent to the reader in the contents of the report.	6. <b>summarize</b> the extent of the process of collecting, confirming in reporting data Comment:...the full extent of the process may not be apparent to the reader in the contents of the report.	6. <b>describe</b> the extent of the process of collecting, confirming in reporting data Comment:...the full extent of the process will not be apparent to the reader in the contents of the report.
7. <b>state</b> all assumptions and limiting conditions that affect the analyses, opinions and conclusions	7. <b>state</b> all assumptions and limiting conditions that affect the analyses, opinions and conclusions	7. <b>state</b> all assumptions and limiting conditions that affect the analyses, opinions and conclusions
8. <b>describe</b> the information considered, the appraisal procedures followed, and the reasoning that supports the analyses, opinions, and conclusions	8. <b>summarize</b> the information considered, the appraisal procedures followed, and the reasoning that supports the analyses, opinions, and conclusions	8. <b>State</b> the appraisal procedures followed, <b>state</b> the value conclusion and reference the existence of specific file information in support of the conclusions
9. <b>describe</b> the appraiser's opinion of the highest and best use of the real estate, when such an opinion is necessary and appropriate	9. <b>summarize</b> the appraiser's opinion of the highest and best use of the real estate, when such an opinion is necessary and appropriate	9. <b>State</b> the appraiser's opinion of the highest and best use of the real estate, when such an opinion is necessary and appropriate
10. explain and support the exclusions of any of the usual valuation approaches	10. explain and support the exclusions of any of the usual valuation approaches	10. <b>state</b> the exclusions of any of the usual valuation approaches
11. <b>Describe</b> any additional information that may be appropriate to show compliance with, or clearly identify and explain permitted departures from, the specific guidelines of Standard 1 (USPAP)	11. <b>summarize</b> any additional information that may be appropriate to show compliance with, or clearly identify and explain permitted departures from, the specific guidelines of Standard 1 (USPAP)	11. Contain a prominent use restriction that limits reliance on the report to the client and warns that the report cannot be understood properly without additional information in the workfile of the appraiser, and clearly identify and explain permitted departures from the specific guidelines of Standard 1 (USPAP)
12. Include a signed certification in accordance with Standards Rule 2 - 3 (USPAP)	12. Include a signed certification in accordance with Standards Rule 2 - 3 (USPAP)	12. Include a signed certification in accordance with Standards Rule 2 - 3 (USPAP)

Note: Explanatory comments have not been included in this chart, except for excerpt of Comment on 6.

## APPENDIX E

The following is the recognized order for performing adjustments; although not mandatory, it is recommended in order to have consistency in appraisal practices. Adjustments can be performed in percentage or as a lump sum.

ORDER OF ADJUSTMENTS		
Item	Adjustment Type	Explanation or Examples
1	Rights Conveyed	<b>S</b> Easement vs none on a property
2	Financing Terms: <b>S</b> convert to cash equivalency	<b>S</b> adjust for rate below market <b>S</b> example in text includes adjustment of list price to sale price in this category
3	Motivation: <b>S</b> duress	<b>S</b> self-explanatory
4	Market conditions: <b>S</b> time	<b>S</b> self-explanatory
5	Other: <b>S</b> Location <b>S</b> Physical Characteristics <b>S</b> etc..	<b>S</b> self-explanatory

**Source:** *“Basics of real Estate Appraising”* 2<sup>nd</sup> Edition.

**Note:** Adjustments **must be supported** with market analyses, studies, etc.. To avoid subjectivity in the analyses and conclusions of value.

**APPRAISAL GUIDELINES**

**Summary Appraisal Report (Form report)**

**PURPOSE**

Public Works and Government Services Canada acts as the real estate broker for the federal government and as such is responsible for the development of required standards. The guideline presented here represents an important part of this task. It will help ensure uniformity of format and content in the appraisal reporting (summary appraisal report (form report) format) of the many appraisers providing estimates of value for federal real property decisions.

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**APPENDICES**

- A Statement of Limiting Conditions and Critical Assumptions
- B Certification of Appraiser
- C Exposure Time and Marketing Time Definitions
- D USPAP Standard Rule 2-2 \*\*\* Report Comparison Sheet
- E Order of Adjustment
- F List of Approved Computer Generated Residential Summary Appraisal Reports (Form reports)
- G Waterlot Utility Report

## 1.0 PREFACE

- 1.1 The federal government land program covers a wide area and takes many forms - purchase, lease, development, transfer, and expropriation. The funds expended in government land action belong to the public and many individual persons in that public are affected by such action. For this reason, the acquisition and transfer of real property by federal departments must meet the highest standards of fairness, uniformity and efficiency.
- 1.2 The appraisal standards of Public Works and Government Services Canada are based on the acknowledged standards of the major professional appraisal organizations in North America, in particular the Appraisal Institute of Canada (AIC). In its text, *The Appraisal of Real Estate, Canadian Edition* (1992), the AIC defines an appraisal report as follows: "AN APPRAISAL REPORT LEADS THE READER FROM THE DEFINITION OF THE APPRAISAL PROBLEM THROUGH ANALYSIS AND RELEVANT DESCRIPTIVE DATA TO A SPECIFIC CONCLUSION. THE APPRAISER MUST PRESENT ALL FACTS, REASONING, AND CONCLUSIONS CLEARLY AND SUCCINCTLY. THE LENGTH, TYPE AND CONTENT OF APPRAISAL REPORTS ARE DICTATED BY THE CLIENT, REGULATORY REQUIREMENTS, THE COURTS, THE TYPE OF PROPERTY BEING APPRAISED AND THE NATURE OF THE PROBLEM."
- 1.3 The function of an appraisal report in the context of federal real property appraisal is generally to enable someone, other than the appraiser, to make a decision involving the purchase, lease, or exchange of property, based on the value indicated. Appraisals required by the federal government are usually needed for negotiation purposes, and, therefore, must provide the negotiator/reader with the full data, reasoning and analysis of that data.
- 1.4 The appraiser's report must be documented and supported so as to make evident to an impartial reader the soundness of the estimates. However, the material should be set forth as simply as possible, in order to achieve effective communication with the reader while conserving the reader's time.
- 1.5 The Summary Appraisal Report (Form Report) with minimum content as defined in

this guideline reflects market practice consistent with the standards of appraisal institutes throughout North America. This content provides the client with sufficient detail and explanation to understand the appraiser's reasoning and conclusions when a summary appraisal (form report) format is required. The summary appraisal Report (form report) structure has been created to optimize the presentation of relevant data and analyses. The level of detail required in the report is reduced, with full detail available in the appraiser's project file.

- 1.6 The summary appraisal report (form report) is a written appraisal report in a combination check-box and tabular format, containing pertinent subject property data and a value conclusion, as of a specified date. **A summary appraisal report (form report) requires the same field work and analysis as a self-contained report (narrative report).**

## 2.0 POLICY

2.1 In agreement with the Canadian Appraisal Institute of Canada and l'Ordre des Évaluateurs Agréés du Québec, PWGSC recognizes that summary appraisal reports (form reports) should include the following minimum standards. These are excerpts from the "Uniform Standard of Appraisal Practice" (USPAP - canadian version):

- i) identify and provide a summary description of the real estate being appraised;
- ii) state the real property interest being appraised;
- iii) state the purpose and intended use of the appraisal;
- iv) define the value to be estimated;
- v) state the effective date of the appraisal and the date of the report;
- vi) summarize the extent of the process of collecting, confirming, and reporting data;
- vii) state all assumptions and limiting conditions that affect the analyses opinions, and conclusions;
- viii) summarize the information considered, the appraisal procedures followed, and the reasoning that supports the analyses, opinions, and conclusions;
- ix) summarize the appraiser's opinion of the highest and best use of the real estate, when such an opinion is necessary and appropriate;
- x) explain and support the exclusion of any of the usual valuation approaches;
- xi) summarize any additional information that may be appropriate to show compliance with, or clearly identify and explain permitted departures from the specific guidelines of STANDARD 1 (USPAP);
- xii) include a signed certification in accordance with Standards Rule 2-3 (USPAP).

2.2 The Summary Appraisal Report (Form Report) is intended to be used only at the discretion of the Regional Chief Appraiser in consultation with the client. The Summary Appraisal Report (Form Report)

may only be used if the following nine criteria apply:

- .1 the assignment is considered to be standard and routine;
- .2 the purpose of report is to estimate market value;
- .3 the subject is a single family residence; or, an unimproved, standard, subdivided lot;
- .4 the subject is an industrial, commercial, multi-family residential or mixed use, with market value at or below \$250,000; at the discretion of the Regional Chief Appraiser, form reports may be used for properties over \$250,000; however, justification would be required for such a practice;
- .5 when the subject is a single family residence, two approaches to value are preferred, one being a mandatory direct comparison approach where at least three quality indexes are available; if the subject is other than a single family residence any two of the three approaches to value must be used. The appraiser must justify not using a relevant approach to value for the type of property being appraised.
- .6 the design and construction of improvements are typical of the market;
- .7 the cost new of that type of improvement is typically modelled in a nationally recognised cost manual or computerized costing service;
- .8 the existing use of the property is its highest and best use; **and**,
- .9 the subject improvements and lot are in full conformity with the existing zoning or represent a legal, non-conforming use.

2.3 To further clarify the application of the summary appraisal report (form report), it may not be used in the following situations:

- .1 expropriation,
- .2 any court use, or reasonable probability of court use,
- .3 any circumstance normally requiring the use of advanced appraisal approaches, such as discounted cash flow,
- .4 any circumstance involving partial interests, or,
- .5 purposes other than market value (i.e., cannot use a summary appraisal report (form report) for 'value in use').

There is some additional risk involved in using a summary appraisal (form) rather than a self-contained appraisal report (narrative report) where the level of descriptive detail leading to comprehension is reduced, particularly for commercial and industrial properties. The Regional Chief must consider the relative risks associated with a summary appraisal (form) versus a more comprehensive self-contained appraisal report (narrative report). In all cases the level of effort and cost to provide supporting appraisal evidence must be commensurate with the dollar amount of the transaction which it is intended to support.

- 2.4 Even though a summary appraisal (form report) format may be used, the reasons leading to the appraiser's conclusions must be clearly stated to help the client understand the report.
- 2.5 **Metric units of measurement (or metric followed by imperial in brackets) must be used throughout the report.**
- 2.6 Residential summary appraisal reports (form reports) must be completed in accordance with Section 3.0 of this guideline.. Industrial/ Commercial summary appraisal reports (form reports) must be completed in accordance with Section 4.0 of this guideline. Appendix D includes a listing of commercially available computer generated summary appraisal reports (form reports) that are acceptable by the Department

- 2.7 Whenever possible and relevant, two or more approaches to value must be applied in the summary appraisal report (form report), even if the subordinate approach(es) is (are) used only as a rough check on the value derived from the more appropriate or better substantiated approach. Any deviation from this requirement must be documented on the file by the Regional Chief Appraiser.
- 2.8 The report should be enclosed in a suitable cover, preferably cerlox or duotang and not a ring binder. The summary appraisal (form report) format is also conducive to simple stapling.
- 2.9 The report is subject to a review procedure against these guideline standards.
- 2.10 As explained in the guideline on waterlots (1C6), a "Waterlot Utility Report" was developed locally in British Columbia for the valuation for rental purposes of waterlots, particularly for the various harbour commissions in B.C. The structure of this summary appraisal report (form report) facilitates the conversion of the upland value derived from a self-contained report (narrative report) into waterlot values based on the categories of use of the waterlot. This form is included for information in Appendix G.
- 2.11 **The appraiser/author must inspect the property being appraised.** However, at PWGSC's request, there may be special situations where interior and complete exterior inspections are not required. When these situations apply, the terms of reference will specify such requirements on a case-by- case basis.
- 2.12 A summarized discussion of **Reasonable Exposure Time (including the kind of real estate at what value range)** must appear in an appropriate section of the summary appraisal report (form report) that presents the discussion and analysis of market conditions and be referenced at the statement of the value definition and value conclusion. Refer to Appendix C (1B1) for definition of this term.

2.13 A concise section concerning **Marketing Time** must also appear in the summary appraisal report (form report). Since marketing time occurs after the effective date of the market value estimate and the marketing time estimate is related to, yet part from the appraisal process, it is appropriate for the section of the appraisal report that discusses this issue and its implication to appear toward the end of the report after the market value conclusion. Refer to Appendix C (1B1) for a definition of this term.

2.14 Appraisers on occasion rely on reports or information prepared by others in making certain decisions in the process of an appraisal. When relying upon the reports of others (with or without reference to specific conclusions from such reports). The following standards apply:

- .1 use reasonable or supported assumptions as the basis for analyses;
- .2 substantiate acceptance of a report or information relied upon that was prepared by others;
- .3 identify reports of others and the specifics that were relied upon and mention as a minimum the author, and the date of the report;
- .4 reveal and explain each apparent discrepancy between any two opinions that were relied upon;
- .5 accept responsibility for any real estate appraisal or analysis opinion of another relied upon for the analysis, opinion or conclusion;
- .6 preserve the report of others that have been relied upon;
- .7 In relying upon reports prepared by others, appraisers should ensure that their errors and omissions insurance coverage is not jeopardized by such reliance.

2.15 An appraiser must not use or rely on unsupported conclusions relating to characteristics such as race, color, religion, national origin, gender, marital status, familial status, age, receipt of public assistance income, handicap, or an

unsupported conclusion that homogeneity of such characteristic is necessary to maximize the value. An appraiser must ensure that his or her appraisal is impartial, objective and does not illegally discriminate or contribute to illegal discrimination through subjective or stereotypical assumptions.



### **3.0 RESIDENTIAL SUMMARY APPRAISAL REPORT (FORM REPORT)**

- 3.1 All sections of the form must be completed.
- 3.2 Use either check marks or “x”s in the boxes. Much of the factual data concerning the subject property may be provided in this manner.
- 3.3 Sections for which boxes are not provided are to be completed with brief descriptive notes. Most sections of the report are considered self-explanatory.
- 3.4 After the indication of a value range of the homes, mention the typical marketing period, in days, for the subject property type.
- 3.5 In the appropriate section, briefly describe the “scope” of work, sources of information and degree of effort undertaken in the research and the completion of the appraisal report.
- 3.6 In the section on “Condition of Property”, add a subheading “General Remarks” (if non-existent) and briefly explain any deficiencies of the subject property.
- 3.7 Include a colour 8.9 cm x 12.7 cm (3.5" x 5") photograph where indicated. Also give a rough building perimeter plan with outside dimensions shown. Indicate the location within the block and shape of the lot on the “Block Plan”. Comment on special locational factors, if any. Add a definition of the Highest and Best Use, if not already pre-printed on the form.
- 3.8 The Cost Approach should be completed as a rough check on the value indication resulting from the Direct Comparison Approach. If the subject property is unique, with few market comparables, the Cost Approach will be of greater significance to the final estimate of value and will then have to be completed in sufficient detail to convince the reader of its accurate application. In lieu of the page provided, a detailed cost manual worksheet incorporating both land value and depreciation is acceptable. Subject to the above comment on the uniqueness of the subject property, normally significant support for the land value is not required since the Cost Approach is only an approximate check on the accuracy of the Direct Comparison Approach for the appraisal of single family dwellings. Clearly state the conclusion of value by the Cost Approach at the bottom of the page.
- 3.9 Indicate all the information for the Direct Comparison Approach on the appropriate charts: comparative descriptive data for the subject and each comparable and adjustment chart for each comparable. Clearly state the conclusion of value by the Direct Comparison Approach at the end of that section.
- 3.10 Under “Reconciliation”, restate the conclusions of value derived from the approach(es) applied and briefly provide the reasoning that evaluates the approach(es) to value that were applied, and that leads to the subject's single estimate of value. Add the definition of market value in the appropriate section if not already pre-printed on the summary appraisal report (form report).
- 3.11 Clearly state the final estimate of value and the effective date of appraisal. State the “exposure time” associated with the final estimate of value. This should be consistent with the “typical marketing period” mentioned earlier in the report. Sign and date the report and the certification, clearly print the name of the appraiser and state the professional designations held by the appraiser.

3.12 Additional data and analysis may be appended to the form report if required. As a minimum, the addenda must include photographs of the comparable improved sales, a location map showing their location in relation to the subject property, and a statement of limiting conditions and critical assumptions.

3.13 Forms specifically designed for improved, single family residential properties may be used for an appraisal of vacant land with highest and best use for single family residential properties. In the section, "Description of Building", enter "Vacant Land Only" alongside the heading. There is obviously no requirement to further complete this section. In the Direct Comparison Approach, delete descriptive data pertaining to the building and concentrate on data and adjustments appropriate to an unimproved site. The concluding sections of the report still apply.

#### **4.0 INDUSTRIAL/COMMERCIAL SUMMARY APPRAISAL REPORT (FORM REPORT)**

4.1 All sections of the form must be completed, even if only to enter "n/a" for "not applicable". The only exceptions to this requirement are if the summary appraisal report (form report) is used for vacant land (reference paragraph 4.6) or if the income approach is not applicable (reference paragraph 4.7).

4.2 Use either check marks or "x"s in the boxes to provide the descriptive data on the subject property and on its neighbourhood. subject property. Use attached sheets, if necessary, to supplement the data listed on the form report. If the appraisal is of vacant land only, indicate this on the line headed "Description of Building".

4.3 Sections for which boxes are not provided are to be completed with brief descriptive notes. Most sections of the report are considered self-explanatory.

4.4 Most form reports contain a "Block Plan", indicate the location within the block and shape of the subject lot.

4.5 Describe the condition of the building and list any physical or functional deficiencies, provide details for any special equipment, and list and detail site improvements.

The appraiser includes the "scope": sources of information and degree of effort undertaken in the research and completion of the appraisal report. A definition of the Highest and Best Use must be added, if it is not already pre-printed on the form report.

- 4.6 The section on “Cost Approach” need only be completed for an appraisal of vacant land (land value analysis) or when the cost approach is deemed appropriate as either the primary approach to value, or as a secondary approach in support of another. A chart is normally included to allow first for descriptive data on each comparable and then for the application of dollar or percentage adjustments to account for differences between the comparables and the subject property. Cost and depreciation data are to be summarized at the end of that section of the form, concluding with an indicated property value. All costing worksheets or computer printouts should be included in the appendix of the report.
- 4.7 The section entitled “Income Approach” need only be completed when this approach is deemed appropriate as either the primary approach to value, or as a secondary approach in support of another. Normally, charts and tables are provided to facilitate each step of this approach to value, from providing market comparables to support the potential income estimate through to the capitalization process. For a market derived capitalization rate or gross income multiplier, basic data on comparable sales must be provided in support of the rate or multiplier conclusion. For a mortgage equity derived capitalization rate, state the anticipated mortgage rate and term. At least two methods of capitalization must be employed--gross income multiplier and one other. The final estimate of value must be clearly stated at the bottom of the page.
- 4.8 The “Direct Comparison Approach” section usually provides a table that first permits a comparison of data on the comparables to the subject, and then facilitates the application of dollar or percentage adjustments to account for any differences that exist. In most applications of a form report, it is anticipated that this approach to value will be applicable and will be developed.
- A unit of comparison appropriate to the subject type and local market must be selected and the indicated unit of value and subject estimate of value must be clearly stated.
- 4.9 At the end of the section on the “Direct Comparison Approach”, the value estimates from the approaches applied must be restated, and a single, final estimate of value must be concluded. The reasoning leading to this conclusion must be briefly described. Also, the appraiser must indicate the “exposure time” that is inherent in the value estimate.
- 4.10 Include a colour, 8.9 cm x 12.7 cm (3.5" x 5") photograph where indicated. Also give a rough building perimeter plan with outside dimensions shown. All form reports have a page which includes the appraiser's certification and the definition of market value. The appraiser should print or type his/her name, sign and date the report, and restate the effective date of appraisal and final value estimate.

## **5.0 APPRAISER'S QUALIFICATIONS**

- 5.1 For all summary appraisal reports (form reports), the author must include the following information:
- a. Membership in professional real estate organizations;
  - b. If the appraiser is member of a professional real estate organization that has a mandatory recertification program; the appraiser must certify that he has satisfied the requirements of such a recertification program.

## APPENDIX A

# Statement of Limiting Conditions and Critical Assumptions

### LIMITING CONDITIONS

1. This report is prepared at the request of (client) for the purpose of an appraisal of market value to assist in ( ). It is not reasonable for any person other than ( ) to rely upon this appraisal without first obtaining written authorization from (client) and this appraiser. The report is prepared on the assumption that no other person will rely on it for any other purpose and that all liability to all such persons is denied.
2. While expert in appraisal matters, the author is not qualified and does not purport to give legal advice. It is assumed that:
  - (1) a legal description as furnished by ( ) is correct;
  - (2) title to the property is good and marketable;
  - (3) there are no encroachments, encumbrances, restrictions, leases or covenants that would in any way affect the valuation, except as expressly noted herein;
  - (4) the existing use is a legally conforming use which may be continued by any purchaser from the existing owner, except as expressly noted herein;
  - (5) rights of way, easements or encroachments over other real property and leases or other covenants noted herein are legally enforceable.

Because these assumptions have been made, no investigation, legal or otherwise, has been undertaken which would verify these assumptions, except as expressly noted herein.
3. The author is not a qualified surveyor (and no legal survey concerning the subject property has been provided). Sketches, drawings, diagrams, photographs etc. are presented in this report for the limited purpose of illustration and are not to be relied upon in themselves.
4. The author is not qualified to give engineering advice. It is assumed that there are no patent or latent defects in the subject improvements, that no objectionable materials are present, that they are structurally sound and in need of no immediate repairs, unless expressly noted within this report. No soil tests for either load bearing capacity or contamination have been done, nor have tests been done of the heating, plumbing, electrical, air-conditioning or other systems and, for the purpose of this opinion, they are assumed to be in good working order.
5. No investigation has been undertaken with the local zoning office, the fire department, the buildings inspector, the health department or any other government regulatory agency unless such investigations are expressly represented to have been made in this report. The subject property must comply with such government codes and regulations and, if it does not comply, its non-compliance may affect market value. To be certain of compliance, further investigations may be necessary.
6. Market data has been obtained, in part, from documents at the land registry office, or as reported by the real estate board. As well as using such documented and generally reliable evidence of market transactions, it was

also necessary to rely on hearsay evidence. Except as noted herein, a reasonable attempt has been made to verify all such information.

7. Because market conditions, including economic, social and political factors, change rapidly and, on occasion, without warning, the market value expressed as of the date of this appraisal cannot be relied upon to estimate the market value as of any other date except with further advice of the appraiser.
8. The compensation for services rendered in this report does not include a fee for court preparation or court appearance, which must be negotiated separately. However, neither this nor any other of these limiting conditions is an attempt to limit the use that might be made of this report should it properly become evidence in a judicial proceeding. In such a case, it is acknowledged that it is the judicial body which will decide the use of the report which best serves the administration of justice.
9. The appraisal has been prepared on the premise that the appraised property is free and clear of all liens or encumbrances with the exception of normal mortgage financing.
10. The distribution of the total valuation between land and improvements applies only under the proposed program of property utilization and is invalidated if the appraisal is used for any other purpose.
11. Information identified in this report as being furnished by others is believed to be reliable, and has been checked to the best of the appraiser's ability, although no responsibility is assumed for its accuracy.

#### CRITICAL ASSUMPTIONS

Example: Highest and Best Used is based on an assumed change of zoning.

**APPENDIX B****Certification of Appraiser**

I certify that, to the best of my knowledge and belief:

- the statements of fact contained in this report are true and correct.
- the reported analyses, opinions and conclusions are limited only by the reported assumptions and limiting conditions, and are my personal, unbiased, professional analyses, opinions and conclusions.
- I have no present or prospective interest in the property that is the subject of this report, and I have no personal interest or bias with respect to the parties involved.
- my compensation is not contingent upon the reporting of a predetermined value or direction in value that favours the cause of the client, the amount of the value estimate, the attainment of a stipulated result, or the occurrence of a subsequent event.
- I have made a personal inspection of the property that is the subject of this report on

**S** This report has been prepared, in conformity with the *Uniform Standards of Professional Appraisal Practice* (USPAP). For all appraisals completed in the province of Quebec, the appraisal report, as a minimum requirement, meets “*les Normes de pratique professionnelle*” adopted by l’Ordre des Évaluateurs Agréés du Québec and the *Uniform Standard of Appraisal Practice* (USPAP - canadian version), if they are compatible with “*les Normes de pratique professionnelle*” adopted by l’Ordre des Évaluateurs Agréés du Québec.

\_\_\_\_\_  
(Date)

- no one provided significant professional assistance to the person signing this report.
- My final estimate of value as of \_\_\_\_\_ is \$ \_\_\_\_\_.  
(Date)

\_\_\_\_\_  
(Signature of Appraiser)

\_\_\_\_\_  
(Date)

## APPENDIX C

# Exposure Time and Marketing Time Definitions

**EXPOSURE TIME** has been defined in the Dictionary of Real Estate Appraisal ( Third Edition, Chicago, Appraisal Insitute, 1993) as:

The time a property remains on the market.

The estimated length of time the property interest being appraised would have been offered on the market prior to a hypothetical consummation of a sale at market value on the effective date of the appraisal; a retrospective estimate based upon an analysis of past events assuming a competitive and open market. Exposure time is always presumed to occur prior to the effective date of the appraisal. The overall concept of reasonable exposure encompasses not only adequate, sufficient and reasonable time but also adequate, sufficient, and reasonable effort.

The estimate of the time for reasonable exposure is not intended to be a prediction of a date of sale or a one-line statement. Instead, it is an integral part of the analyses conducted during the appraisal assignment. **The estimate may be expressed as a range and can be based on one or more of the following:**

- statistical information about days on market;
- information gathered through sales verification; and,
- interviews of market participants.

Related information garnered through this process include the identification of typical buyers and sellers for the type of real estate involved and typical equity investment levels and/or financing terms.

\*\*\*\*\*

**MARKETING TIME** has been defined in that same dictionary as:

The time it takes an interest in real property to sell on the market subsequent to the date of an appraisal.

Reasonable marketing time is an estimate of the amount of time it might take to sell a property interest in real estate at the estimated market value level during the period immediately after the effective date of the appraisal; the anticipated time required to expose the property to a pool of prospective purchasers and to allow appropriate time for negotiation, the exercise of due diligence, and the consummation of a sale at a price supportable by concurrent market conditions.

The estimate of marketing time is an integral part of the analysis conducted during the appraisal assignment. **The estimate may be expressed as a range and can be based on one or more of the following:**

- statistical information about days on market;
- information gathered through sales verification;
- interviews of market participants; and
- anticipated changes in market conditions.

*Note: The key difference between these two terms is that exposure time is presumed to precede the effective date of the appraisal whereas marketing time is considered the period immediately following the effective date of the appraisal.*



## APPENDIX D

### USPAP STANDARD RULE 2-2 \*\*\* REPORT COMPARISON SHEET

The essential difference among the three options is in the use and application of the terms **describe**, **summarize** and **state**. **Describe** is used to connote a comprehensive level of detail in the presentation of information. **Summarize** is used to connote a more concise presentation of information. **State** is used to connote the minimal presentation of information.

a) Self-Contained Appraisal Report (narrative report)	b) Summary Appraisal Report (Form Report)	c) Restricted Appraisal Report (Letter report)
1. identify and <b>describe</b> the real estate being appraised	1. identify and provide a summary description of the real estate being appraised	1. identify the real estate being appraised
2. <b>state</b> the real property interests being appraised	2. <b>state</b> the real property interests being appraised	2. <b>state</b> the real property interests being appraised
3. <b>state</b> the purpose and intended use of the appraisal	3. <b>state</b> the purpose and intended use of the appraisal	3. <b>state</b> the purpose and intended use of the appraisal
4. define the value to be estimated	4. define the value to be estimated	4. <b>State</b> and reference a definition of the value to be estimated
5. <b>state</b> the effective date of the appraisal and the date of the report	5. <b>state</b> the effective date of the appraisal and the date of the report	5. <b>state</b> the effective date of the appraisal and the date of the report
6. <b>state</b> the extent of the process of collecting, confirming in reporting data Comment:...the full extent of the process should be apparent to the reader in the contents of the report.	6. <b>summarize</b> the extent of the process of collecting, confirming in reporting data Comment:...the full extent of the process may not be apparent to the reader in the contents of the report.	6. <b>describe</b> the extent of the process of collecting, confirming in reporting data Comment:...the full extent of the process will not be apparent to the reader in the contents of the report.
7. <b>state</b> all assumptions and limiting conditions that affect the analyses, opinions and conclusions	7. <b>state</b> all assumptions and limiting conditions that affect the analyses, opinions and conclusions	7. <b>state</b> all assumptions and limiting conditions that affect the analyses, opinions and conclusions
8. <b>describe</b> the information considered, the appraisal procedures followed, and the reasoning that supports the analyses, opinions, and conclusions	8. <b>summarize</b> the information considered, the appraisal procedures followed, and the reasoning that supports the analyses, opinions, and conclusions	8. <b>State</b> the appraisal procedures followed, <b>state</b> the value conclusion and reference the existence of specific file information in support of the conclusions
9. <b>describe</b> the appraiser's opinion of the highest and best use of the real estate, when such an opinion is necessary and appropriate	9. <b>summarize</b> the appraiser's opinion of the highest and best use of the real estate, when such an opinion is necessary and appropriate	9. <b>State</b> the appraiser's opinion of the highest and best use of the real estate, when such an opinion is necessary and appropriate
10. explain and support the exclusions of any of the usual valuation approaches	10. explain and support the exclusions of any of the usual valuation approaches	10. <b>state</b> the exclusions of any of the usual valuation approaches
11. <b>Describe</b> any additional information that may be appropriate to show compliance with, or clearly identify and explain permitted departures from, the specific guidelines of Standard 1 (USPAP)	11. <b>summarize</b> any additional information that may be appropriate to show compliance with, or clearly identify and explain permitted departures from, the specific guidelines of Standard 1 (USPAP)	11. Contain a prominent use restriction that limits reliance on the report to the client and warns that the report cannot be understood properly without additional information in the workfile of the appraiser, and clearly identify and explain permitted departures from the specific guidelines of Standard 1 (USPAP)
12. Include a signed certification in	12. Include a signed certification in	12. Include a signed certification in

accordance with Standards Rule - 3 (USPAP) 2	accordance with Standards Rule - 3 (USPAP) 2	accordance with Standards Rule 2 - 3 (USPAP)
---	---	---

Note: Explanatory comments have not been included in this chart, except for excerpt of Comment on 6.

## APPENDIX E

The following is the recognized order for performing adjustments; although not mandatory, it is recommended in order to have consistency in appraisal practices. Adjustments can be performed in percentage or as a lump sum.

<b>ORDER OF ADJUSTMENTS</b>		
<b>Item</b>	<b>Adjustment Type</b>	<b>Explanation or Examples</b>
1	Rights Conveyed	<b>S</b> Easement vs none on a property
2	Financing Terms: <b>S</b> convert to cash equivalency	<b>S</b> adjust for rate below market <b>S</b> example in text includes adjustment of list price to sale price in this category
3	Motivation: <b>S</b> duress	<b>S</b> self-explanatory
4	Market conditions: <b>S</b> time	<b>S</b> self-explanatory
5	Other: <b>S</b> Location <b>S</b> Physical Characteristics <b>S</b> etc..	<b>S</b> self-explanatory

**Source:** *“Basics of real Estate Appraising”* 2<sup>nd</sup> Edition.

**Note:** Adjustments **must be supported** with market analyses, studies, etc.. To avoid subjectivity in the analyses and conclusions of value.

## APPENDIX F

# List of Approved Computer Generated Appraisal Form Reports

The following lists sources external to PWGSC that provide acceptable computer generated summary appraisal reports (form reports). These softwares can be purchased by each region if the need justify the expense.

In accepting summary appraisal reports (form reports) using the approved software, Regional Chief Appraisers must ensure that the function of the report is correctly stated (e.g., do not accept a report with a stated function for mortgage purposes if commissioned for an alternative function), and that the terms of the appraisal contract authorizing the report are respected (including, among all other requirements, metric and the Crown's copyright requirement).

Generally, the Appraisal Institute of Canada's (AIC) USPAP (Uniform Standards of Professional Appraisal Practice) mortgage forms and the form reports recommended by L'Ordre des Évaluateurs Agréés du Québec are approved for use by PWGSC. However, the AIC's USPAP Limited Appraisal forms are not to be used in support of real property transactions as they do not contain adequate information in support of the value estimate.

Similar products provided by other firms may be added to this list from time to time. The only prerequisite for additions to this list are that the National Chief Appraiser has the opportunity to review the form report to ensure that it contains an adequate description of the subject property and its setting, and a minimum of three comparables in the Direct Comparison Approach--with adjustments quantified in an adjustment chart. Regional Chief Appraisers should recommend alternative products to the National Chief Appraiser for inclusion on this list.

### 1. The CRAL Software

The CRAL software is currently available for two platforms DOS and Windows making them the most widely used appraisal software programs in Canada. They are form generator programs giving today's Canadian professional appraiser the ability to print and view forms in English and French. All of the standard USPAP compatible residential forms from the Appraisal Institute of Canada are included in addition to a new 1998 CSA-USPAP compatible Summary Report, Sales Data Reports from CMHC and the Canadian Employee Relocation Counsel (CERC) form. All combined CRAL for Windows includes over 125 Canadian forms and addendum pages.

A commercial form version is also available.

CRAL for Windows also includes all of the digital imaging tools required for direct integration with today's most popular digital camera and scanners. The product also includes Internet based EDI for electronically transmitting reports, numerous key strokes saving features, build-in office management functions, true network support and much more.

Cost: As of April 1998, CRAL for Windows retails for \$699 Can.  
Technical support 24 hours of day, 7 days a week.

CSA offers numerous other real estate related products and services.

For information, contact: Mr. Frank G. Cinque

President/CEO  
CSA, Inc.  
8 John Walsh Blvd.  
The Atrium, Suite 204  
Peekskill, N.Y., 10566

Phone: 1-800-272-5550  
Fax: (914) 739-1584  
Web Site: <http://www.csacanada.com>  
E-Mail: [sales@csacanada.com](mailto:sales@csacanada.com)

## 2. Informatique Deschamps, Mélançon

This software generates a form appraisal report. The system is also geared towards project management allowing the information captured by the system, when an appraisal request is received, to be reuse throughout the appraisal process. i.e. assignment of the appraisal, printing a form appraisal report, etc...

The system also includes a database which allows transactions to be stored and reuse for other appraisal assignments. Several tables are included in the system allowing minimal time used in keying data; several blocks of the form can be completed by choosing options already saved on tables, i.e. sector; progression, regression, stable, etc... The software has more attributes, such as the integration of digital pictures, possibility to perform all calculations associated with the appraisal approaches utilized in the report, etc...

The system is supported by the Microsoft products (Access Database, etc...).

Data capture is in French but form reports can be printed in French or English.

The system can be obtained through l'Ordre des Évaluateurs Agréés du Québec (1-800-982-5387). IDM is responsible for installation, after sale service and development.

Cost: As of April 1998, the software retails for \$650.00 for each appraiser and \$150 for each additional appraiser.

For information, contact: Claude Deschamps

Informatique Deschamps, Mélançon (IDM)  
1279 Boul St. Joseph, Est  
C.P. 69 Succursale Rosement  
Montréal, Québec  
H1X 3B6  
Phone: (514) 523-2021  
Fax: (514) 655-0083

**APPENDIX G**

# Waterlot Utility Report

See next page for Form on *Waterlot Utility Value report*.

**PUBLIC WORKS AND GOVERNMENT SERVICES CANADA  
REAL PROPERTY SERVICES BRANCH  
WATERLOT UTILITY VALUE REPORT**

Date: \_\_\_\_\_

PWGSC File No.: \_\_\_\_\_  
Client index/lease No: \_\_\_\_\_

**Property Identification:**

Legal Description \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Lessee: \_\_\_\_\_  
Issue Date of lease: \_\_\_\_\_  
Terms of Lease: \_\_\_\_\_ Years      Lease acreage: \_\_\_\_\_  
Rental revision Date: \_\_\_\_\_      Metric Equivalent \$ \_\_\_\_\_ (ha)  
Lease Purpose: \_\_\_\_\_  
\_\_\_\_\_

Base Upland Value: \$ \_\_\_\_\_ acre      Metric Equivalent \$ \_\_\_\_\_ (ha)  
Source: \_\_\_\_\_

**Calculations:**

<u>Utility Class</u>	<u>% Upland Value</u>	<u>Area</u>	<u>Utility Value</u>
A - permanent improvement, fill	100%	_____ Ac. @ \$ _____	= \$ _____
B - floats and berths, mill Pond	50%	_____ Ac. @ \$ _____	= \$ _____
C - Ingress/egress	25%	_____ Ac. @ \$ _____	= \$ _____
Log Holding/Reminder	10%	_____ Ac. @ \$ _____	= \$ _____

TOTAL: \_\_\_\_\_ Ac.      = \$ \_\_\_\_\_  
Metric Equivalent: \_\_\_\_\_ ha

**Comments:** \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Prepared and submitted By: \_\_\_\_\_  
PWGSC Real Estate Service, Marine.

**Note:**

1. The above valuation as at \_\_\_\_\_ 19 \_\_\_\_\_ and recognizes the relationship between the base upland value and the integrated waterlot utility value.
2. The utility value is defined as the value of the waterlot in relation to the actual integrated use being made of it within the terms of the lease.
3. The base upland value is defined as the value of the adjacent upland or the value of the upland within the portion or zone of the harbour in which the subject is located, as derived from market sales of comparable land analyzed and adjusted for comparability and equity, where the waterlot has an integrated use with the upland
4. The appraiser has made no legal survey of the party.
5. The value estimate is for determination of rental and is based on industrial upland values.

**APPRAISAL GUIDELINES**

**Estimates**

**PURPOSE**

Public Works and Government Services Canada acts as the real estate broker for the federal government and as such is responsible for the development of required standards. The guideline presented here represents an important part of this task. It will provide guidance for the preparation of estimates (attestation or preliminary estimates) including a description of the circumstances when estimates are appropriate.

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1.0 Preface ..... 1

2.0 Policy - Attestation ..... 2

3.0 Minimum Content of an Attestation ..... 3

4.0 Policy - Preliminary Estimate ..... 3

5.0 Minimum Content of a Preliminary Estimate ..... 4

**APPENDICES**

- A Limiting Conditions and Critical Assumptions for an Attestation
- B Certification for an Attestation
- C Attestation Form
- D Sample - Limiting Conditions and Critical Assumptions for a Preliminary Estimate



## 1.0 PREFACE

- 1.1 The federal government land program covers a wide area and takes many forms -purchase, lease, development, transfer, and expropriation. The funds expended in government land action belong to the public and many individual persons in that public are affected by such action. For this reason, the acquisition and transfer of real property by federal departments must meet the highest standards of fairness, uniformity and efficiency.
- 1.2 However, it must also be recognized that it is necessary to balance the requirement for such standards against the dollar value of the transaction to ensure that the degree of valuation support is commensurate to the value of the real property. Treasury Board (TB) has recognized this need for fiscal responsibility in the management of the federal government's real property transactions. TB policies permit the use of an estimate in support of any acquisition or disposition of a property with a market value up to and including \$250,000; and for any lease or licence regardless of the dollar amount of the transaction.
- 1.3 The following are the key components of an "estimate" as defined in the Glossary of the TB Manual on Real Property:
  - a. written opinion of the value of an interest in real property;
  - b. as of a specified date;
  - c. is obtained from and signed by a person experienced in real estate who is established in a real estate-related business such as real estate appraisal, banking, real estate brokerage, real estate sales, ... , **or is employed in the federal Public Service**; and,
  - d. may be provided in the form of short notes or letters of opinion.
- 1.4 In comparing these requirements with TB's definition of an appraisal, it is also important to note that an estimate is not necessarily:
  - a. adequately supported; or,
  - b. based on an evaluation according to accepted appraisal practices.
- 1.5 PWGSC Realty has two valuation products that are classified as "estimates": an "Attestation" and a "Preliminary Estimate". While both satisfy TB's requirements for an "estimate", neither are required nor intended to be an "appraisal" in the professional sense.

## 2.0 POLICY - ATTESTATION

- 2.1 PWGSC has created an “attestation” as an in-house document to be used in support of any in-house acquisition or disposition. “In-house” refers to projects where the acquisition or disposition is negotiated by PWGSC's Realty personnel. An attestation is not a product to be provided to a client; rather, it provides an in-house file record that an “estimate” has been completed for a transaction in accordance with TB policies.
- 2.2 **PWGSC Realty will not provide attestations or “estimates” as a product to federal government clients in support of transactions completed within their authority without the use of PWGSC services.**
- 2.3 In accordance with TB Policy, attestations may be used in support of any purchase or sale of real property with a value up to and including \$250,000. PWGSC policy is to restrict the use of Attestations to any land lease or licence with a total consideration up to and including \$250,000; where the total consideration represents the market value of the rights conveyed by the lease or licence. The regional Chief Appraiser must consider the type and complexity of the subject property before applying this policy.
- 2.4 To be updated by the Chief Appraiser..at a later date...----->  
The use of attestations in support of the leasing or letting of building space is addressed in Realty Bulletin 10.277.5, under authority of the Director of Leasing.
- 2.5 An attestation of value is a written and signed opinion of the value of a property or of a specified interest in property (e.g. clearing rights, rights of way), provided by a PWGSC appraiser or agent, based upon a cursory investigation, as of a specified date.
- 2.6 The attestation of value is to be accepted on its own merits and is not subject to review because its main purpose is to minimize the cost of producing the market value substantiation for low-value transactions. The attestation is the sole responsibility of the agent/appraiser. The attested market value estimate (as opposed to the negotiated price for the transaction) is to be accepted at face value and is not to be questioned, other than via a process where at random the manager of the agent/appraiser may request, through the Regional Chief Appraiser, that a field review be undertaken.
- 2.7 Given that an attestation is intended to fulfil the role as a cost-effective “estimate” of value, used for in-house substantiation of the market value of the interest in property involved in the transaction and is not provided as a product to any other party, either internal or external to the federal government, the Uniform Standards of Professional Appraisal Practice do not apply to the attestation.

### 3.0 MINIMUM CONTENT OF AN ATTESTATION

- 3.1 The minimum content of an Attestation is defined by the “fill-in-the-blanks” form in Appendix C. It is recommended that a Statement of Limiting Conditions and a Certification be attached to each attestation to accurately convey the context of the value estimate. Samples are provided in Appendices A and B.

### 4.0 POLICY - PRELIMINARY ESTIMATE

- 4.1 From time to time, a client requests that Real Estate Sector provides a preliminary indication of the value of a property or a group of properties. The instructions accompanying the request, either written or verbal, usually request a ballpark figure from which some general decisions can be made. Sometimes they further instruct that no proper inspection of the property should be made and in no way should the owner of the property be alerted to any government interest.
- 4.2 Such estimates, commonly called **preliminary estimates**, are not true appraisals in the accepted sense since the requirements stated in the TB definition of “appraisal” are not met, but are merely an opinion of value based on very limited data. Whilst they are a proper function of the real estate appraiser, care must be taken that the report cannot be construed so that the values shown are taken as a reliable opinion of value.
- 4.3 On receipt of this type of request, it is important to point out to the client the very limited reliance which can be placed on the opinion in the decision making process.
- 4.4 A Preliminary Estimate of value is a written and signed opinion of the value of a property or of a specified interest in property (e.g. clearing rights, rights of way), provided by a PWGSC appraiser or agent, based upon a cursory investigation, as of a specified date. Its function is to provide an inexpensive estimate of value, based on very limited research, to a client for budgeting or planning purposes. **A Preliminary Estimate cannot be used to estimate market value in support of a transaction.**

4.5 Given that a Preliminary Estimate is intended to fulfil the role as a cost-effective “estimate” of value, used for internal (to the federal government) budgeting and planning purposes, and is not intended for a non-federal government client, **the Uniform Standards of Professional Appraisal Practice do not apply to the Preliminary Estimate.**

## **5.0 MINIMUM CONTENT OF A PRELIMINARY ESTIMATE**

- 5.1 When a preliminary estimate is to be completed, the normal appraisal reporting standards should not be followed. The report should be in a letter format including the very specific limiting conditions and certification contained in Appendices D and B, respectively. Care must be taken to provide sufficient context as to the nature of the estimates, and as to the scope of the effort to gather and analyze data, to advise the client as to the reliability of the value estimate.
- 5.2 Even though the limiting conditions specific to a preliminary estimate could be included as part of the limiting conditions appended to the letter, it is recommended that they are clearly stated separately in the letter so that there can be absolutely no misunderstanding on the part of any reader as to the weight and reliance that can be attached to the indicated value.

## APPENDIX A

# Statement of Limiting Conditions and Critical Assumptions

## Attestation

### LIMITING CONDITIONS

1. This report is prepared solely as in-house (to Public Works and Government Services Canada, Realty Branch) justification of the market value of the interest reported in order to satisfy Treasury Board's requirements for an "estimate" of value. The report is prepared on the assumption that no other person will rely on it for any other purpose and that all liability to all such persons is denied.
2. The author is not qualified and does not purport to give legal advice. It is assumed that:
  - (1) a legal description as furnished by ( ) is correct;
  - (2) title to the property is good and marketable;
  - (3) there are no encroachments, encumbrances, restrictions, leases or covenants that would in any way affect the valuation, except as expressly noted herein;
  - (4) the existing use is a legally conforming use which may be continued by any purchaser from the existing owner, except as expressly noted herein;
  - (5) rights of way, easements or encroachments over other real property and leases or other covenants noted herein are legally enforceable.

Because these assumptions have been made, no investigation, legal or otherwise, has been undertaken which would verify these assumptions, except as expressly noted herein.

3. The author is not a qualified surveyor (and no legal survey concerning the subject property has been provided). Sketches, drawings, diagrams, photographs etc. are presented in this report for the limited purpose of illustration and are not to be relied upon in themselves.
4. The author is not qualified to give engineering advice. It is assumed that there are no patent or latent defects in the subject improvements, that no objectionable materials are present, that they are structurally sound and in need of no immediate repairs, unless expressly noted within this report. No soil tests for either load bearing capacity or contamination have been done, nor have tests been done of the heating, plumbing, electrical, air-conditioning or other systems and, for the purpose of this opinion, they are assumed to be in good working order.
5. No investigation has been undertaken with the local zoning office, the fire department, the buildings inspector, the health department or any other government regulatory agency unless such investigations are expressly represented to have been made in this report. The subject property must comply with such government regulations and, if it does not comply, its non-compliance may affect market value. To be certain of compliance, further investigations may be necessary.
6. Market data has been obtained, in part, from documents at the land registry office, the assessment office, or as reported by the real estate board. As well as using such documented and generally reliable evidence of market transactions, it was also necessary to rely on hearsay evidence.

7. Because market conditions, including economic, social and political factors, change rapidly and, on occasion, without warning, the market value expressed as of the date of this estimate cannot be relied upon to estimate the market value as of any other date except with further advice of the author.
8. The estimate has been prepared on the premise that the appraised property is free and clear of all liens or encumbrances with the exception of normal mortgage financing.
9. The distribution of the total valuation between land and improvements applies only under the proposed program of property utilization and is invalidated if the appraisal is used for any other purpose.
10. Information identified in this report as being furnished by others is believed to be reliable, and has been checked to the best of the author's ability, although no responsibility is assumed for its accuracy.

### **CRITICAL ASSUMPTIONS**

Example: Highest and Best Used is based on an assumed change of zoning.

**APPENDIX B****Certification of Author****Attestation or Preliminary Estimate**

I certify that, to the best of my knowledge and belief:

- the statements of fact contained in this report are true and correct.
- the reported analyses, opinions and conclusions are limited only by the reported assumptions and limiting conditions, and are my personal, unbiased, professional analyses, opinions and conclusions.
- I have no present or prospective interest in the property that is the subject of this report, and I have no personal interest or bias with respect to the parties involved.
- my compensation is not contingent upon the reporting of a predetermined value or direction in value that favours the cause of the client, the amount of the value estimate, the attainment of a stipulated result, or the occurrence of a subsequent event.
- I have (or have not) made a personal inspection of the property that is the subject of this report on

\_\_\_\_\_.

(Date)

- My final estimate of value as of \_\_\_\_\_ is \$ \_\_\_\_\_.

(Date)

\_\_\_\_\_

(Signature of Author)

\_\_\_\_\_

(Date)

**APPENDIX C**

# Attestation Form

Client \_\_\_\_\_

Project No.: \_\_\_\_\_

File No.: \_\_\_\_\_

Identification of Property: \_\_\_\_\_ (Civic & Legal) \_\_\_\_\_

Property Rights Appraised: \_\_\_\_\_

Zoning: \_\_\_\_\_

Land (Dimensions, Area and Description): \_\_\_\_\_  
\_\_\_\_\_

Improvements (Size, Age and Description): \_\_\_\_\_  
\_\_\_\_\_

Highest and Best Use: \_\_\_\_\_

Scope: \_\_\_\_\_  
\_\_\_\_\_

Basis of Analysis: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Attested Value: \$ \_\_\_\_\_ Effective Date: \_\_\_\_\_

Remarks: \_\_\_\_\_  
\_\_\_\_\_

Attachments: Limiting Conditions  Certification

\_\_\_\_\_ - - - -

\_\_\_\_\_  
Signature of the Appraiser/Agent

\_\_\_\_\_  
Date

\_\_\_\_\_  
Name of the Appraiser/Agent (Printed)



**APPENDIX D****Statement of Limiting Conditions and Critical Assumptions  
Preliminary Estimate****LIMITING CONDITIONS**

1. **This is not an appraisal report**, but is merely an expression of opinion of value based on limited information.
2. No properties were properly inspected [and merely a cursory examination of the exterior of the properties was made].
3. No proper investigation and analysis of data was carried out.
4. No investigation into the economic analysis of the property was made.
5. The value indicated should be used only as a preliminary guide for budgetary or planning purposes, and cannot be relied upon as a final estimate of value in support of a transaction.
6. The value indicated assumes an unencumbered fee simple interest. No consideration has been given to the value of any other interests which may exist or to any claims which could arise for such factors as damages, disturbances, etc., in the acquisition of these properties.
7. The method(s) employed is/are not necessarily approved appraisal technique(s) but is/are developed to provide the best indication of value within the restrictions imposed by the assignment.

The above limiting conditions are over and above the standard limiting conditions (as per Appendix A) which should also be included and modified as necessary.

**APPRAISAL GUIDELINES**

# Update Reports

**PURPOSE**

This guideline provides the policy requirements related to updating existing appraisal reports.

**TABLE OF CONTENTS**

1.0	Preface .....	1
2.0	Policy .....	1

## 1.0 PREFACE

- 1.1 Often, time passes between the completion of an appraisal report and the need to make a decision based on that report. In other situations, a recurring appraisal requirement exists. Such situations require the updating of the original appraisal report. Some examples in the federal context include:
- .1 passage of time between the effective date of the appraisal report and the negotiation of the sale or purchase transaction. Treasury Board policy requires that current (i.e., to the date of the transaction) appraisals be used to justify the transaction price in relation to the market value of the real property being acquired or disposed. [Ref. Para. 3.2, Chapter 1-5, TB Manual on Real Property.]
  - .2 for some leases in some national parks, rents are adjusted every two years and must be consistent with the self-contained appraisal reports (narrative reports) commissioned once every ten years.
  - .3 valuations for purposes of asset management plans are often updated annually during the intervening years between appraisal reports done typically on a five-year cycle.
- 1.2 While some updating may be done by the federal decision maker using indices such as the Consumers' Price Index or the Russell Property Index, often it is necessary to obtain an update of the existing appraisal report.
- 1.3 Section 2.0 of this guideline establishes PWGSC's policy requirements concerning update appraisal report.

## 2.0 POLICY

- 2.1 The Regional Chief Appraiser and the client should confer to decide whether an existing appraisal is still "current" as required by TB policy. Essentially, both must be satisfied that the appraisal's estimate of market value is still valid as at the date of the transaction.
- 2.2 When an updated appraisal is required, recognizing that an update is an extension of an original appraisal, four conditions must be satisfied:
- .1 the original appraiser is involved,
  - .2 the original client is involved,
  - .3 the real estate has undergone no significant change since the original appraisal (or most recent update), and
  - .4 the time period between the effective date of the original appraisal (or most recent update) and the effective date of the pending update is not unreasonably long for the type of real estate involved.
- 2.3 The update report format need not comply with the format of the original report. For example, often an original report is done in the self-contained appraisal report (narrative report) format and the update is done as a restricted appraisal report (letter report).
- 2.4 The update report must include a cross-reference to the original report and to any previous updates. The update report must expressly incorporate by reference all the background data, market conditions, assumptions and limiting conditions that were contained in the original report.
- 2.5 In the update, the appraiser must address any changes in market conditions and the status of the subject since the effective date of the original appraisal or prior update, and analyze the effect of these changes in arriving at a current value estimate for the subject.

- 2.6 All approaches to value developed in the original appraisal must be updated. The data used in the original approaches that is applicable to the updated appraisal must be reanalyzed, along with any new data.
- 2.7 The appraiser must clearly state that the update report can only be relied upon by a reader familiar with the original report and any prior updates.
- 2.8 The update report must indicate the scope of research and analysis undertaken.
- 2.9 The following is the recommended content for an update report:
- .1 Introduction
    - . Title page.
    - . Expanded Letter of Transmittal with reference to or excerpts from the original appraisal concerning the definition of value, the date of the value estimate, the property rights appraised, the approaches used, the reconciliation and value conclusions, etc.
    - . Specific cross-reference linking the update to the original report and to any previous updates.
    - . Scope.
    - . Certification.
    - . Limiting Conditions and Critical Assumptions.
  - .2 Body of Report
    - . Identification of the real estate.
    - . Changes in market conditions since the original appraisal or previous update. This includes assessed value, taxes, etc.
    - . Changes in the subject property since the original appraisal or previous update. This includes repairs, new leases, etc.
    - . Other information pertinent to the update.
    - . Update on Highest and Best Use.
    - . Update on each appraisal approach applied in the original appraisal.
- 2.10 The update report must be prepared, in conformity with the *Uniform Standards of Professional Appraisal Practice* (USPAP). For all appraisals completed in the province of Quebec, the update report, as a minimum requirement, must meet “*les Normes de pratique professionnelle*” adopted by l’Ordre des Évaluateurs Agréés du Québec and the *Uniform Standard of Appraisal Practice* (USPAP - canadian version), if they are compatible with “*les Normes de pratique professionnelle*” adopted by l’Ordre des Évaluateurs Agréés du Québec.

**APPRAISAL GUIDELINES**

# Limited Appraisal Assignments

**PURPOSE**

This guideline provides the policy requirements related to requests for limited appraisal assignments.

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1.0	Preface .....	1
2.0	Policy .....	1

## 1.0 PREFACE

- 1.1 From time to time, clients may request that the service provided be less than a full appraisal or be based upon certain assumptions. This will result in a “limited appraisal assignment”. For purposes of this Guideline, a limited appraisal assignment is one where the terms of reference have the potential to positively or negatively impact the appraisal research, analysis or value estimate compared to the standard, non-restrictive direction to an appraiser to provide a market value estimate of the subject property.
- 1.2 A limited appraisal assignment may require the appraiser to include or exclude certain assumptions in the analysis, or to deviate from the full application of the appraisal approaches. For example, the appraiser may be asked: to include an assumption that a change in zoning has occurred; or to exclude by assumption the impact of environmental contamination or the existence of an easement; or to undertake a cursory investigation and summary analysis of data. The resultant value may or may not equate to the “market value” of the subject.
- 1.3 Guideline 1B4 defines preliminary estimates and attestations of value, both of which are considered limited appraisal assignments as they are not based on a full and detailed appraisal investigation or analysis.
- 1.4 Section 2.0 of this Guideline provides limitations to ensure compliance with appropriate appraisal standards in the context of a limited appraisal assignment. This helps balance the client's need for cost effective valuations with PWGSC's need to preserve its business reputation and professionalism.

## 2.0 POLICY

- 2.1 PWGSC will not provide an appraisal report (other than a preliminary estimate in circumstances and as defined in guideline 1B4) for any property that has not been inspected by the appraiser.
- 2.2 Any limited appraisal assignment report must clearly identify the reduced scope resulting from the terms of reference and clearly describe the circumstances of the assignment to avoid being ambiguous or misleading to any reader of the report. The report must clearly state all assumptions related to the assignment in the Limiting Conditions and Critical Assumptions section of the report and state how these assumptions may vary from the actual situation. For example, state that for the purposes of the appraisal, a C (Commercial) zoning designation was assumed, as opposed to the existing G (Government) zoning.
- 2.3 A limiting condition must be drafted to advise the reader that something less than a full appraisal was completed and the value estimate is not as reliable as and may differ from one derived from a full and complete appraisal analysis. Appendix D to guideline 1B4 provides an example of statements appropriate to a preliminary estimate of value which may be used as a reference and be modified for other limited appraisal assignments.
- 2.4 The limited appraisal report must explain what steps or procedures normally undertaken for the appraisal assignment were deleted or modified as a result of the terms of reference. Both the appraiser and the user of the appraisal service must realize that, as the degree of departure from the normal appraisal investigation and analysis increases, the corresponding level of reliability of the limited appraisal's estimate of value decreases and the user of this service accepts a higher level of risk.
- 2.5 The client must agree that a limited appraisal assignment is appropriate and

must be aware of the risks associated (e.g., report may not withstand strict scrutiny).

**APPRAISAL GUIDELINES**

# Expropriation

**PURPOSE**

In order to comply with the *Expropriation Act*, which requires the valuation of the separate interests in a property, the standard self-contained appraisal (narrative) format must be adjusted.

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**APPENDICES**

- A Security Interest
- B Value of Other Interests (Easements, Restrictive Covenants, etc.)
- C Equity Interest
- D Leasehold Interest



## 1.0 PREFACE

- 1.1 The policy of the Department in respect to the expropriation of property is one of full and open communication with the owner.
- 1.2 The Expropriation Act requires that compensation be based on an appraisal report, which must be given to the owner. In line with the Department's policy, **the report must contain all the data and analysis leading to the conclusions of the appraiser**. At one time it was customary for the appraiser to limit the analysis content of the report in order to protect himself in the event that the matter proceeded to litigation. This practice is no longer viable.
- 1.3 In a decision in respect to the Ontario Act, the Ontario Supreme Court ruled that the owner must be able to make a decision based on the report; the same is true with the Federal Act. Thus, **the owner must be given all the facts**.
- 1.4 A well-documented report can instill in the owner a greater degree of satisfaction with the offer of compensation, and can eliminate many of the differences that might otherwise lead to lengthy and expensive litigation in the Federal Court.

## 2.0 POLICY

- 2.1 In order to comply with the Expropriation Act, which requires the valuation of the separate interests in a property, the self-contained appraisal report (narrative report) format must be adjusted. A statement of the various interests must be included. After indicating the market value of the property in the main body of the report, the separate interests can then be dealt with in the addenda of the self-contained appraisal report (narrative report) (see Appendices A- D for sample forms). The Department will send the main report and relevant addenda to the owner of the interest concerned. Obviously a one-page addendum will normally be enough to deal with any security interest, whereas the equity and/or leasehold interest addenda may be relatively substantial.
- 2.2 The appraisal is to be based on a market data analysis utilizing all pertinent appraisal techniques.
- 2.3 The **effective date of the appraisal is the date of registration of confirmation of expropriation**, unless otherwise instructed.
- 2.4 The market value definition applicable under the Federal Expropriation Act is as follows: **“the amount that would have been paid for the interest if, at the time of its taking, it had been sold in the open market by a willing seller to a willing buyer”**.
- 2.5 Interest in land includes lessee, security holders, or any person having any right, estate or interest in the property: each separate interest is to be valued. Public Works and Government Services Canada will pass on to the appraiser all available information as to known interests in the subject property, and the Department of Justice will be asked to assist the appraiser if necessary. In addition, the appraiser must make every effort to identify the interests that exist and, where there are occupants without a formal lease, such as

month-to-month tenancies, these too, should be reported by the appraiser.

2.6 Where the owner of an interest occupied the land when the notice of confirmation was registered and as a result it is necessary for him to give up occupation of the land, Section 26(3) of the Act states that the value of the expropriated interest is the greater of:

- (a) the market value of the interest in its highest and best use (if other than existing use); **or**,
- (b) the market value, as if the existing use were the highest and best use.

Thus, the appraiser will be required to estimate and report on the value of both (a) and (b).

Where it is clearly evident that the value based on either (a) or (b) is far in excess of the other, then the appraiser will so state and give reasons under Analysis of Highest and Best Use in the self-contained appraisal report (narrative report). After authorization from the Department, the appraiser may then proceed with a single valuation under (a) or (b).

2.7 The appraiser will also:

- (a) identify and report on any element of **special economic advantage** incidental to the owner's occupation of the land, and
- (b) if specifically requested to do so, report on the costs, expenses and losses arising out of or incidental to the owner's **disturbance** including moving to other premises.

In dealing with special economic advantage and/or disturbance, the appraiser should contact the person who authorized the assignment and agree on specific terms and conditions of reference. It may be appropriate for the appraiser to obtain other expert opinion on these matters but before doing so, he must obtain authority to engage and pay such other expert.

2.8 The appraiser will report and document the **equivalent premises** concept when and if necessary. As soon as it becomes apparent that this concept will apply, the appraiser should contact the person who authorized the assignment and agree on equivalent area to be considered and type of data to be supplied in report.

2.9 The appraiser, when valuing the **security interest(s)** of an expropriated property, will also document information on the prevailing rates of interest for an equivalent security in the community in which the expropriated interest is situated.

2.10 The appraiser, when valuing any **leasehold interest**, will carefully consider:

- (a) the terms of the lease and term remaining on the date of confirmation, so as to calculate the capitalized value of any contract rent advantage;
- (b) any investment in the land by the owner of the leasehold interest and nature of any business carried on by him thereon; and,
- (c) the reasonable expectancy of renewal of the lease, so as to calculate the degree and amount of disturbance, if specifically requested to do so.

2.11 The appraiser will value the **security interest** (mortgage) computed as the principal amount outstanding as of the date of confirmation plus three months' interest; and if the property is subject to more than one security interest, each shall be determined in order, but in no case shall the sum of the security interests exceed the value of the whole as if it had not been subject to any security interest. (It may be necessary for the appraiser to consider Equivalent Premises, depending on the resultant equity position).

2.12 **If a limited interest or a partial taking** is expropriated, the value assigned to the security interest will be in the same proportion that the value of the land taken bears to the whole of the land.

2.13 The appraiser, in estimating the value of an expropriated interest, shall not consider:

- (a) any sale, lease or other transaction concerning the expropriated interest that was entered into after the registration of the notice of intention to expropriate (note that “entered into” is considered to mean at the date of an executed contract);
- (b) any anticipated or actual use by the Crown of the land at any time after the date of notice of the intention to expropriate was registered (except as in 2.14 below);
- (c) any increase or decrease in the value of the interest resulting from the anticipation of expropriation by the Crown; or,
- (d) any increase in value of the interest as a result of an illegal use.

2.14 Subsection 25(1) of the Act indicates that compensation for partial taking is calculated in two parts.

**Part 1:** The value of an expropriated interest at the time of its taking [Paragraph 25(1) (a)]; and,

**Part 2:** The amount of any decrease in value of the remaining property of the owner determined as provided in Section 27.

This precludes the use of the **before and after method** as normally carried out. The benefit of this is to the owner because the value of the land taken, regardless of any betterment to the remaining lands, is always paid.

The method of appraisal shall be as follows:

**Part 1:** The actual part taken must be valued on its own. If marketable, the market value as an individual parcel as per Subsection 26(2) or 26(3), if not marketable on its own, then it is valued at the greater of, the value it contributes to the whole property, or the value of equivalent land.

**Part 2:** The value of the **severance damages** under Subsection 25(1)(b) and Section 27 is then calculated by taking the value of the total interest before the taking, minus the previously calculated value of the part taken and the value of the interest in the remaining land. Thus in valuing the severance damage, the Act uses a **modified before and after calculation**.

The total loss in value is then the sum of the two parts.

It will be noted that Subsection 27(2) of the Act provides that in determining the value of the remaining interest in land, any increase or decrease in the value of the remaining interest resulting from the construction or use or anticipated construction or use of any public work on the land shall be taken into account. However it is pointed out that any benefits or advantages to the remaining land are only set off against damages for severance or injurious affection to the remaining land, and thus is automatically accounted for in Part 2 of the calculations.

2.15 The report is sent by the Department to the owner supporting an offer of compensation; therefore the thoroughness and accuracy of statements are absolutely imperative. Particular care should be taken to ascertain all matters of fact, such as details of index sales, zoning and availability of services, etc.

The appraiser is urged to clearly indicate any limiting factors and circumstances

affecting the consideration of the problem. Recognizing the pressure of time in these assignments, the appraiser may wish to point out that certain assumptions are subject to change if more information is available at a later date.

- 2.16 The appraiser must not attempt to fix compensation, i.e., to add percentages to the value for any purpose whatsoever.
- 2.17 Section 37 of the Act authorized the appraiser to make an inspection of the property and, for this purpose, a letter will be provided to identify him to the expropriated party. The appraiser must make arrangements with the owner for a suitable time to inspect the property.

### **3.0 EXPROPRIATION APPRAISAL REPORT - GENERAL**

- 3.1 The minimum requirements for an appraisal report of an expropriated property are the same as for the self-contained appraisal (narrative) format with additional information provided as per this Guideline, and with the following adjustments.

#### **3.2 For a Total Taking**

The market value of a property in its highest and best use according to the self-contained appraisal (narrative) format requirements. A second valuation may be required of the market value of the property in its existing use plus special economic advantage to the occupant; where the owner is in occupation and is required to give up same, and the existing use is not the highest and best use.

#### **3.3 For a Partial Taking**

**Part 1.** The market value of the taking in its highest and best use as per the self-contained appraisal (narrative) format requirements. A second valuation may be required of the market value of the taking in its existing use plus special economic advantage to the occupant in the situation where the owner is in occupation and is required to give up same, and the existing use is not the highest and best use.

**Part 2.** To estimate the decrease in value, if any, of the remaining property, the modified before and after method is applied as per section 2.14 of this guideline.

## 4.0 PARTIAL TAKING REPORT FORMAT

(Refer to the guideline on the Self-Contained Appraisal (narrative) Format for the required standards for each of the following sections.)

### Introduction

- 4.1 Title Page
- 4.2 Letter of Transmittal
- 4.3 Table of Contents
- 4.4 Photographs
- 4.5 Summary of Important Facts and Conclusions
- 4.6 Statement of Limiting Conditions and Critical Assumptions

### Factual Data

- 4.7 Definition of the Appraisal Problem (See Note A)
- 4.8 Scope
- 4.9 Identification of the Property
- 4.10 Area and City Data
- 4.11 Neighbourhood Data
- 4.12 History
- 4.13 Mortgage Data

### Before the Taking

- 4.14 Site Data
- 4.15 Services Available to the Site
- 4.16 Description of the Buildings
- 4.17 Site Improvements
- 4.18 Assessed Value and Annual Taxes
- 4.19 Lease Details
- 4.20 Land Use Controls (Zoning, etc.)

### Analysis and Conclusion

- 4.21 Analysis of Highest and Best Use
- 4.22 Appraisal Analysis
- 4.23 Land Value as if Vacant
- 4.24 Estimated Value by the Cost Approach
- 4.25 Estimated Value by the Income Approach
- 4.26 Estimated Value by the Direct Comparison Approach
- 4.27 Reconciliation and Final Estimate of Value
- 4.28 Exposure Time

### After the Taking

Where no change in information occurs in the following sections, it is unnecessary to repeat previous information. A statement of no change should be made.

If the taking results in more than one remainder parcel, each remainder parcel must be treated separately and with the following completed:

### Factual Data

- 4.14 Site Data (See Note B)
- 4.15 Services Available to the Site
- 4.16 Description of the Buildings
- 4.17 Site Improvements
- 4.18 Assessed Value and Annual Taxes
- 4.19 Lease Details
- 4.20 Land Use Controls (Zoning, etc.) (See Note C)

### Analysis and Conclusion

- 4.21 Analysis of Highest and Best Use (See Note D)
- 4.22 Appraisal Analysis
- 4.23 Land Value as if Vacant
- 4.24 Estimated Value by the Cost Approach
- 4.25 Estimated Value by the Income Approach
- 4.26 Estimated Value by the Direct Comparison Approach
- 4.27 Reconciliation and Final Estimate of Value
- 4.28 Exposure Time

### Summary

Value(s) of Part(s) Taken	_____
Value of Total Interest	_____
before the Taking	_____
Less: value of remainder	_____
Difference before and after	_____
Less: Value of Part(s) Taken	_____
Severance damages	_____
Total Value Reported	=====

- 4.29 Certification

## Part IV - Supporting Data

- 4.30 Displays (See Note E)
- 4.31 Addenda
- 4.32 Indexes
- 4.33 Appraiser's Qualifications

Note A: The "Definition of the Appraisal Problem" encompasses the purpose and function, e.g., purpose of the appraisal is to estimate the loss in market value to the subject property due to the taking of a part of the property for (give proposed use, such as 'a new highway'), by the (state the acquisition authority, such as the Department of Transport).

Note B: The "Site Data" should provide the area of the property before the taking, the area of the part taken and the area of the remainder parcel(s).

Note C: Under "Land Use Controls", consideration should be given to any possibility of zoning change (which must be confirmed by the appropriate authorities) as a result of works to be done on the part taken and changes in the neighbourhood.

Note D: For "Highest and Best Use", careful consideration must be given to change of use caused by the works to be done on the part taken, and any zoning change as per Note C.

Note E: In the "Displays", it is important that the dimensions, area, shape, frontage, access and any other factors of the Remainder Parcel(s) be clearly described, using wherever possible, a detailed plan or at least a sketch plan.

## 5.0 VALUATION OF INTERESTS

In accordance with the Act, each interest will be valued separately as outlined below:

- 5.1 Value of Security Interests.
- 5.2 Value of Other Interests (and Costs if requested to do so).
- 5.3 Value of Equity Interest (and Costs if requested to do so).
- 5.4 Value of Leasehold Interest (and Costs if requested to do so).
- 5.5 Identify and report on elements of Special Economic Advantage to the owner, if applicable.
- 5.6 Report on Equivalent Premises concept, if applicable.
- 5.7 Report on prevailing rates of interest.
- 5.8 Summary of value of all interest (and Costs if requested to do so).
- 5.9 Justification of cost items (e.g., Business Disturbance Relocation, if requested to report on Costs).

## 6.0 SPECIAL ECONOMIC ADVANTAGE

6.1 Section 26, subsection (3), paragraph (b) of the Act provides that an owner, in occupation of any land at the time the Notice of Confirmation was registered, may be entitled to either the market value of his/her interests in its highest and best use **or** the aggregate of the market value as if the existing use were the highest and best use plus costs and expenses and losses arising out of or incidental to the owner's disturbance, including moving to other premises; plus the value to the owner of any element of special economic advantage to him/her arising out of or incidental to his/her occupation of the land, to the extent that no other provision is made by this paragraph for the inclusion thereof in determining the value of the expropriated interest.

6.2 Special care must be exercised in applying this provision: the costs and expenses and losses arising out of or incidental to the owner's disturbance may cover what might otherwise be regarded as special economic advantage. Since it is difficult to generalize in such an involved matter, the following examples are given to illustrate the type of situation where an element of special economic advantage may occur.

(a) **Non-Conforming uses:** an owner may be living in a residence and using the property for business purposes as well. In some areas, the planning authority does not permit a subsequent owner to continue the non-conforming use, nor is the non-conforming owner permitted to re-establish the non-conforming use on another property. In these circumstances, the market may not fully reflect the value in use, and a calculation should be made on the economic advantage to the owner of this dual use.

(b) **Where special economic advantage is being enjoyed:** where business premises are used for purposes requiring extensive parking facilities, and the expropriated property had the benefit of using a nearby parking lot available to them when not required by the expropriated business - a social club using the parking lot of an office building in the evening; an office or retail store using a parking lot of a social club or movie theatre during the day. Obviously, the owner of the expropriated property is enjoying a special economic advantage which he will probably lose when he relocates. In some cases, municipal by-laws on ratio of parking space to building area will force the expropriated owner to buy a larger site when he relocates. This then must be taken into account and a calculation made as to the monetary value of this economic advantage.

## **7.0 EQUIVALENT PREMISES (APPLICABLE ONLY TO RESIDENCES)**

- 7.1 Section 26, subsection (8) of the Act provides that where an expropriated interest was being used by the owner for the purposes of his/her residence and the value of the interest otherwise determined under this section is less than the minimum amount sufficient to enable the owner to relocate the residence in or on premises reasonably equivalent to the premises expropriated, there shall be added to the value otherwise determined the amount by which that minimum amount exceeds such value.
- 7.2 The principle involved is most clearly illustrated in urban renewal schemes or similarly large acquisition schemes whereby smaller than standard, older or perhaps poorer than standard homes are to be removed from the community and no such properties of similar value are available within that community. For example, similar homes may exist in the community but because they currently sell at a higher price than the value of the subject (perhaps because these similar homes are in a better district), then the minimum amount of difference should be added to the value of the expropriated interest.
- 7.3 It is difficult to generalize about the extent to which this provision may apply, especially in geographic terms. Judgement must be used in each instance but generally it appears to be the intent that an owner should not have to move away from his present community--i.e., moving from one part of a city to another would be reasonable, but not to another city. Similarly, in rural areas the owner should not be forced to move to another district.
- 7.4 The Equivalent Premises Provision applies to any residence (Residence means a dwelling, a home). Thus, this provision will apply to such properties as a farmhouse or to the residential unit of a combination business and living premises, and to leased residences.
- 7.5 In order to report the equivalent premises concept, the appraisal report will require some changes in format. The purpose of the appraisal will be to estimate the minimum amount of money needed for the owner to acquire reasonably equivalent premises. Market data, fully documented, should be utilized. The appraiser will document sales and listings of reasonably equivalent properties which were available on the market as of the applicable date. The normal adjustment process used in the Direct Comparison Approach is not applicable. The appraiser will identify physical and functional differences between the indexes and subject property, and express an opinion in respect to their relative desirability. In looking for equivalent properties, the appraiser will consider properties that are within a reasonable range of equivalency to the subject property. It is not necessary for the property to be exactly similar or to be a replacement in detail of the expropriated property.
- 7.6 A federal court judgement states that ... reasonably equivalent to the premises expropriated does not mean identical premises ... but ... in or on premises which are corresponding in function to that expropriated, but not exceeding the limit prescribed by reason or not excessive. The section does not require the court to embark on an eye for an eye comparison.
- 7.7 In all cases, Subsection 26(8) requires that an amount, to be determined, is to be added to the value of the interest of the expropriated property. Thus, at all times an appraisal report in respect to Subsection 26(8) must be in addition to the appraisal report of the market value of the interest as of the effective date of the appraisal.



## APPENDIX A

## Security Interest

Name of Property Owner: \_\_\_\_\_

Address of Property Owner: \_\_\_\_\_

Location and Legal  
Description of Security: \_\_\_\_\_

Type of Security: \_\_\_\_\_

Name of Security Holder: \_\_\_\_\_

Address of Security Holder: \_\_\_\_\_

Terms and Conditions of Security: (Copy of document to be attached)

Security Interest:

Principal balance only, outstanding as of \_\_\_\_\_ (Date\*) \$ \_\_\_\_\_ \*\*

Add 3 months' interest @ \*\*\* \_\_\_\_\_ % \$ \_\_\_\_\_

Add accrued interest from \_\_\_\_\_ to \_\_\_\_\_ (Date) \$ \_\_\_\_\_ (Date\*)

**TOTAL:** \$ \_\_\_\_\_

\_\_\_\_\_  
Signature of Appraiser

\_\_\_\_\_  
Date of Signature

\* Date of confirmation, if known.

\*\* Amount to be reflected in Appendix C.

\*\*\* Prorated rate of interest of existing mortgage.

**APPENDIX B**

# Value of Other Interests

(EASEMENTS, RESTRICTIVE COVENANTS, ETC.)

Name of Property Owner: \_\_\_\_\_

Address of Property Owner: \_\_\_\_\_  
\_\_\_\_\_

Location and Legal  
Description of Property: \_\_\_\_\_  
\_\_\_\_\_

Name of Holder of Interest: \_\_\_\_\_

Address of Holder of Interest: \_\_\_\_\_  
\_\_\_\_\_

Purpose, Location and Description of Interest:  
(Copy of document and plan or sketch to be attached)

Value of Subject Interest as of \_\_\_\_\_ : \$ \_\_\_\_\_  
(Date)

\_\_\_\_\_  
Signature of Appraiser

\_\_\_\_\_  
Date of Signature

**APPRAISAL GUIDELINES**

**Environmental Impacts**

**PURPOSE**

This guideline provides an understanding of the various factors related to contaminated properties, including the departmental policy, the roles and responsibilities of the appraiser, and environmental liability law. It also provides methods for valuation of contaminated properties and reporting of valuation results to limit the appraiser's liability for contaminated properties.

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- B Environmental Law in Canada
- C Property Condition Questionnaire for Use By Appraisers

## **1.0 PREFACE**

### **1.1 Contamination - Major Concern of the Market**

Buyers and sellers of property are now well aware of the adverse effects contaminants can have on the market value of land. Often these buyers, sellers and custodians will look to the appraiser for advice and guidance on how land contamination affects their real estate assets' value. However, these same parties may also look to the appraiser as someone to sue in the event the property is found to be contaminated.

### **1.2 Appraiser's Role**

It is no longer appropriate for an appraiser to disregard environmental concerns by including a limiting condition in the report. The appraiser who attempts to mitigate liability by simply adding a disclaimer that excludes contaminants from the scope of an appraisal may produce a report that is considered misleading. Such an appraiser will not be providing a standard of practice acceptable to the client or ultimately the courts.

While the appraiser may not be qualified to measure or interpret detailed scientific data, the client has a right to expect some level of assistance from an appraiser if contamination is suspected or found to exist.

### **1.3 Environmental Law and the Appraiser**

Environmental legislation and regulations in Canada allow federal, provincial and municipal authorities to set appropriate limits for contamination on both private and public lands. The legislation and regulations also provide these authorities with the right to enforce contamination compliance standards and hold property owners liable for the costs of reducing contamination to acceptable levels.

Because property owners, including interests having "deep pockets" (e.g., lending institutions), can be liable for the costs of contamination to lands, parties to land transactions often manage the risks of contamination through environmental audits and assessments.

Appraisers are often involved in the land transaction process - sometimes during the investigative stage of the environmental assessment and audit. Because the appraiser's evidence can influence decisions on the purchase of contaminated lands, the appraiser may be named in litigation should difficulties arise. This can occur where there is the possibility of an error or omission.

### **1.4 Contents of this Guide**

To assist appraisers in counselling their clients and dealing with contaminated site issues, this guide:

- outlines the policies concerning the appraisal of contaminated lands,
- describes the roles and responsibilities of the PWGSC appraiser in the appraisal of contaminated properties,
- indicates typical causes of loss in value of a contaminated property and procedures for their evaluation, and
- provides suggested content in reporting data to limit the liability for the information and to prevent its misuse.

## 2.0 POLICY

- 2.1 Contaminated properties must be appraised in accordance with standard professional appraisal practises.
- 2.2 Acquisitions, management and dispositions (which include the appraisals used to support those activities) are to be carried out in a manner that is environmentally sound with due consideration given to environmental factors. **The Department of Justice has indicated that federal government employees and agents may be held personally liable for damages to the Crown for acts which do not comply with federal environmental legislation.**
- 2.3 The appraiser must follow accepted professional methods in reporting information pertaining to the environmental condition of the property being appraised. The appraiser must report all obvious evidence of contamination in a property. **The appraiser may be liable for damages if parties rely on a report that does not contain information related to possible contamination.**
- 2.4 On a case by case basis, depending on client requirements, the appraiser may be requested to complete a checklist or questionnaire for environmental assessment purposes as a supplement to an appraisal assignment. The completed form should be completed in accordance with item 4.3 of these Guidelines.

## 3.0 ROLES AND RESPONSIBILITIES OF THE APPRAISER

### 3.1 What the Appraiser Must Do

The appraiser has two distinct roles concerning the appraisal of contaminated properties.

1. The appraiser must diligently recognize and report all obvious evidence of contamination. The appraiser should be familiar with environmental law in Canada as it affects real estate and liability principles concerning contaminated properties. Appendix B provides a description of environmental law and liability principles. Section 4.1 below describes precautions in recognizing and documenting contamination evidence. Section 4.3 provides guidance concerning the appraiser's role in recognizing and reporting of contaminants through an environmental assessment/audit process. Section 4.5 provides some guidance on the presentation of contamination issues in a standard self-contained appraisal report (narrative report).
2. The appraiser must understand how contamination affects the property and how its impact on market value should be estimated. The appraiser must value contaminated property in accordance with professional standards and methods. Section 5.0 provides a synopsis of methods of estimating contamination's impact on market value of property.

Most appraisal organizations throughout North America have adopted the Uniform Standards of Professional Practise (USPAP). USPAP offer advisory opinions with respect to the appraiser's role in contaminated properties that must be respected. These opinions concern:

- recognition of contamination
- estimation of remediation compliance costs, and
- valuation of interests in affected real estate.

## **4.0 THE APPRAISER'S ROLE IN RECOGNIZING AND REPORTING CONTAMINATION**

### **4.1 Diligence Precautions**

Diligence in recognizing and reporting contamination requires the appraiser to take common sense precautions prior to the appraisal assignment, during the phase of gathering data, and in reporting the facts to the client. These precautions include:

- Making inquiries with vendors and clients about potential contamination problems of a property prior to undertaking the assignment. This will permit the appraiser to determine the scope of the assignment based upon the availability of information necessary to address possible contamination issues.
- Inspecting the property thoroughly. On completion of an assignment, an appraiser is deemed to know everything that a reasonable property inspection by a competent appraiser would uncover.
- Identifying and investigating contamination problems that are commonly associated with particular types of land uses (e.g., ground water contamination on fuel storage sites) involving the subject property, and with neighbouring properties. This also includes any problems with past uses of the properties.
- Obtaining information from public sources including municipal, provincial environmental departments, land title and registration offices, concerning a history of ownership, uses, reported spills, and environmental problems common to an area, or a particular property.

- Developing some expertise in becoming aware of and reporting suspicions of contaminants that might be found on a subject property.
- Keeping current of statutory controls that can be imposed on the use of contaminated properties.
- Advising the client when a property has suspicions of contamination, and recommending that an investigation by an environmental specialist be undertaken to confirm possible suspicions. The appraiser should also note in the report any condition that is observed during the inspection and normal fact gathering stage. Generally, the observed condition would lead the appraiser to believe that hazardous substances may be present in or on the property, or is at variance with information or descriptions provided by others.
- Ensuring that all information used as factual contamination evidence has been verified. Unless the information has been verified by an environmental specialist, the appraiser can only conclude that toxic substances might reasonably be suspected to be on the subject property.

In taking appropriate precautions the appraiser may encounter past or current site investigation programs of the subject property which may help to confirm and determine the extent of any suspicions of contamination. Such investigations are commonly referred to as environmental assessments or audits.

#### 4.2 **Three-Phase Environmental Assessments/Audits**

In response to legislation and liability concerns, lending institutions and firms involved in land management in both the private and public sectors initiated contaminated site investigation programs that have commonly evolved into a three-phase investigation process. The process is variously known as an environmental site assessment/investigation, environmental audit, or property transfer assessment.

The three-phase program begins with a Phase 1 investigation which generally involves a preliminary survey to determine if there is a reasonable basis to suspect an environmental hazard is present. It typically involves a completion of a questionnaire or checklist form by appropriately qualified people. The form normally details the prior uses of a property, a site inspection noting structures on the subject and neighbouring properties, the geographic setting for possible area hazards, and public records of events that might lead to suspicions of possible contamination.

Occasionally appraisers are asked to participate in these investigations by completing a Phase 1 checklist or questionnaire. Depending upon the property being assessed and the proposed use of the site, the level of detail and the scope of the assessment may vary. As well, an appraiser may not have the required qualifications to complete a Phase 1 assessment in its entirety.

Phase 2 is a more detailed investigation designed to confirm by scientifically and legally accepted methods the existence of a suspected contamination risk.

Phase 3 of the investigation involves determining the extent of an identified risk, and developing an appropriate remediation plan (usually with cost estimates) to reduce the risk to an accepted level.

Verification of the existence of contaminants and remediation and

compliance cost estimating in Phases 2 and 3 involves knowledge and experience beyond that of most appraisers. These estimates are typically provided by environmental consulting specialists that are properly versed in federal and provincial requirements and are qualified to assess and measure the materials and/or methods appropriate for remediation compliance.

#### 4.3 **Appraiser's Role with Environmental Review Checklists**

Occasionally the PWGSC appraiser may be requested to complete a Phase 1 Environmental Review Checklist form or a similar property condition questionnaire at the time of a required field inspection leading to the completion of an appraisal report. Caution is advised concerning the use of such information as part of an appraisal report. Without appropriate qualifiers, the appraiser may be exposed to unnecessary liability.

If an appraiser reports from a checklist that a particular property contains asbestos, for example, then the appraiser is said to have made a finding. This could be misleading and may subject the appraiser to unnecessary liability. Without an appropriate qualifier the reader might assume that the appraiser has made the scientific measurements necessary to determine that the material is asbestos. In addition, if an appraiser is considered competent to identify one environmentally sensitive material, there is a likelihood that the client or users of the appraisal will assume that an observation (or finding) of one environmental concern will imply, in the absence of comment on others, that other environmental concerns do not exist. It is therefore important to provide appropriate qualifiers and limiting conditions to such information forms and checklists.

The Appendix includes a Property Condition Questionnaire that the Appraisal Institute of Canada has approved for use by its members with appropriate limiting condition qualifiers. This questionnaire is intended for use in situations where an appraiser is requested to provide information concerning contamination issues in a separate report at the time of an appraisal assignment.

#### 4.4 **Appraiser and Environmental Consultant's Roles**

Where it is appropriate for an appraiser to inspect a property and make a comment concerning some suspected environmental contaminant, the comment should only be made as an observation, with an outline of the further steps necessary to confirm any uncertainties that may exist. The further steps would include the engagement of a qualified environmental consultant to confirm uncertainties.

If an environmental consultant is required, appropriate procedures would require the client rather than the appraiser to hire the consultant to minimize risk to the appraiser for the expert's opinion. If an error is found in the work of the consultant engaged by the appraiser, legal recourse for the injured party is normally through the appraiser.

In relying on the reports of others, the appraiser must believe that the advice or findings are made by persons who are licensed, certified or otherwise properly qualified. Often it is difficult for the appraiser to determine who is an otherwise "qualified" environmental consultant, when there is no widely recognized accreditation or registration procedures for the profession. This of course will change over time as environmental consulting firms become better established.



#### 4.5 Reporting Contamination Facts and Suspicions

The appraiser is obliged to report both facts and suspicions of contamination in the appraisal report. The Factual Data section of the self-contained appraisal report (narrative report) under the headings of Neighbourhood Data, Site Data, Site Improvements and Description of the Buildings depending upon the nature of the contaminant factors would be appropriate locations for presentation of this information. The appraiser must take care to distinguish facts which must be supported by an environmental expert's evidence, from suspicions which must be supported by the appraiser's observations.

The existence of an environmental expert's evidence of contamination presented in the Factual Data Section of the report will be a factor that affects the highest and best use of a subject property. The Highest and Best Use Section is therefore the appropriate section of the report to analyze contamination's impact upon the subject property's use. The subsequent discussion concerning the valuation techniques to be employed would be appropriate content for the Appraisal Analysis Section of the report.

#### 5.0 APPRAISER'S ROLE IN VALUING CONTAMINATED PROPERTY

Lending institutions are reluctant to finance contaminated properties thereby rendering them virtually unmarketable. The appraisal profession's response to the valuation challenges presented by contaminated real estate is still evolving. Therefore, the following discussion may not provide all answers, but presents current theory and practises for the valuation of contaminated properties.

As stated previously, the appraiser can be held liable for misleading or incomplete information pertaining to contamination and its effect on market value. To minimize liability, the appraiser must understand the impacts that contaminants can have on the property and how their effects on market value should be estimated. In addition, there are some procedures for the appraiser to follow in estimating the impacts that contaminants can have on market value.

##### 5.1 Types of Impact on Value

Contamination or the risk of contamination can result in a diminished utility for a property. The types of impact for this diminished utility may be of a short or a long term nature and will determine the particular valuation techniques to be applied. These impacts include:

- cost of controls (remediation)
- change in operating costs
- limitations in maximum income that could be anticipated, and
- loss of marketability due to public perceptions of increased risk (stigma).

##### 5.2 Contamination Appraisal Procedures

The appraisal of a known contaminated property will invariably involve discussions with a client on both a value in its current contaminated state and a value as if uncontaminated. Therefore, to estimate the market value of contaminated property the appraiser should:

- a. estimate the market value of the lands as if they were uncontaminated,
- b. analyze the specific impacts that contamination has on the use of the lands in a contaminated condition,
- c. evaluate the cost of the impacts on the property by using methods determined by the types of impacts, then
- d. deduct the costs from the base value for an estimate of the value in a contaminated state.

### 5.3 Types of Analysis and Valuation Methods

The types of analysis used for estimating the impact of contamination on a property's market value include:

- cost-based analysis using similar principles to those used for estimating accrued depreciation in a cost approach,
- income-based analysis measuring the incremental costs or changes in residual income that may result from a contamination, and
- modified direct comparison methods and survey or statistical analysis techniques to estimate the intangible risks of contamination.

Using a traditional direct comparison approach for estimating the value of a contaminated property presents some difficulties. The degree of contamination can be so specific to a property that it would be difficult to make a meaningful comparative analysis. In addition, properties that are marketed in a contaminated state usually include some provision for a significant adjustment or undertaking by the vendor to assume liability for the contaminants. This liability assumption may be difficult to quantify. However, as the industry becomes more experienced in dealing with some "typical" contaminant situations, market participants may develop an awareness of the likely contaminant risks and costs. This will enable the appraiser to provide for appropriate analysis of comparable contaminated properties.

The costs of contamination may bear no relationship to the market value of a property. There are some contaminant situations where the costs of remediation and lingering risk associated with a property may exceed the estimated market value in an uncontaminated state. Examples of these include former gasoline service stations and former heavy industrial sites that are now vacant and unmarketable due to the contaminant clean-up costs.

Use of any of the above analysis methods is dependant on the types of impact on value, the availability of market information, and the scope of the appraisal assignment.

#### 5.4 Cost of Controls (Remediation)

When a property is found to be contaminated, costs incurred for the control of contamination have perhaps the most immediate effect on the value of the property. There are various responses to contamination problems, each of which have different financial impacts. These can range from removing the contaminated material and restoring the property to its fully usable condition to repairing, isolating, encapsulating, and enclosing the contaminant.

For many contaminant situations, there may be more than one response from which to choose. Cost estimates could recognize one-time costs (e.g., removal and disposal of contaminants), recurring costs (e.g., spraying and respraying an impermeable membrane), and deferred costs for restoration and remediation of a site at the end of an investment horizon.

##### **Valuation Method**

Contamination can be viewed as a form of functional deficiency requiring modernization through controls and remediation measures. Reference to accepted appraisal texts can be useful in formulating both the investigation as well as the valuation methodology.

One-time, recurring and ongoing remedial cost estimates should be obtained from qualified professional sources. The one-time costs, assuming they would normally be carried out immediately, can be estimated and deducted from the value of the site as if uncontaminated to arrive at the contaminated site value.

Ongoing and recurring remedial costs can be determined by estimating the lump sum present value of the periodic costs and then deducting them from the uncontaminated site value.

#### 5.5 Changing Operating Costs

Contamination can lead to increases in operating and maintenance costs, such as general administrative expenses, and special insurance requirements. Additional testing, monitoring, security and extra supervisory personnel may be needed in a particular building - resulting in extra expenses related to utilities, supplies, management fees and the like.

Consideration must also be given to reductions in operating expenses that might occur due to restrictions in operations or occupancy patterns imposed because of contamination.

##### **Valuation Method**

Additional operating costs for repairs, maintenance can be deducted as a lump sum from the uncontaminated value if they extend over a period of less than a year. If the costs cover a period of more than one year, they should be discounted at an appropriate rate to represent current value by means of a discounted cash flow analysis.

Some deferred costs can extend over a considerable period of time. Rather than attempting to quantify these deferred costs and determining their present worth for an immediate deduction from the full uncontaminated value, it may be appropriate to use the income approach and adjust upwards the risk factor applied to the capitalization rate in accordance with market behaviour. The incremental increase in the capitalization rate must equate to the loss in value due to the deferred costs.

## 5.6 Restrictions in Maximum Income

Contamination can affect the potential income of a property in both the short and long term. In the short term, contamination may result in a partial or full shut-down of operations of a property for the time necessary to implement remediation action and to receive any necessary approvals from environment agencies. Over the long term, contamination can have an effect on the potential income, from both the annual operations and the sale proceeds of the property at the end of the investment horizon.

### Valuation Method

#### *Short Term Effects*

Where a property is shut-down partially or fully for a period of time to implement remediation, use of the property is deferred. This deferred use is treated as a reversion of use and should be discounted for the time of deferment. If only a portion of the property is affected, then a proration must be estimated and discounted for the time of deferment.

#### *Long Term Effects*

There may be situations where a known contaminated property may continue to be used in its current contaminated condition, but may not be used for any other purpose. In these cases, the benefit available to the owner would be the present worth of the expected cash flow from the existing improvements and a reduced residual value at the end of the investment horizon. With no prospect of a change in use, any residual would be the value of the land, in its contaminated condition, at the end of a shortened investment horizon. As well, the investment horizon cannot exceed the lesser of the economic life of either the production equipment (in the case of an industrial facility) or the economic life of the building itself. The economic life of the production equipment is normally shorter than that of the real estate improvements.

#### *Affect on Highest and Best Use*

The highest and best use of a once contaminated property may also be affected. Authorities generally apply standards for “safe levels” of contamination that vary by usage. An industrial site, for example, may have a highest and best use, as if unimpaired, for residential development. Due to more stringent remediation criteria for residential lands, the clean-up and control costs may make residential use unprofitable for the contaminated lands. Highest and best use is therefore affected. The residual value at the end of the investment horizon would likely be lower in a continued industrial use than it would be for residential use. Care must be taken to ensure that the limitations in residual highest and best use are considered to arrive at a present worth property value.

## 5.7 Loss of Marketability due to Public Perceptions (Stigma)

A contaminated property may experience a loss in value that is far greater than the known costs of clean-up. This arises from the additional factor of stigma. Stigma is a market imposed penalty that can affect a property known to be contaminated, a property once contaminated and now clean, or a property neighbouring one that is contaminated. Properties with suspected contamination suffer in the marketplace from uncertainty due to limited knowledge of the kind and amount of contamination present, the unknown costs and timing of remediation, and a host of intangible factors. These intangible factors include fear of additional health hazards and additional liability for unknown costs.

## Time and Value Relationship of Stigma

The marketplace's interest in owning or occupying a once contaminated property varies over time. Before knowledge exists of contamination, a property perceived as clean may realize a value equal to its full uncontaminated market value. When a property is perceived to be a health risk because of contamination, its marketability suffers due to uncertainty of costs. The more uncertainty associated with a property, the greater the risk margin sought by the market, and the greater the value loss. As the contamination becomes better understood and the costs and implications become clearer, uncertainty and risk are reduced. Following remediation, the value of the property may reach, over a period of time, that of its never contaminated stage.

There are some tangible factors of stigma that can be evaluated using an income-based analysis. However, such intangibles as emotions and aversion to uncertainty can be measured by use of surveys and modified direct comparison approaches where appropriate.

### 5.7.1 Tangible Factors of Stigma

For all properties, stigma means some loss of marketability at some point in time. To regain marketability, a requirement of additional cash investments to comply with future upgrading standards may be required. For income producing properties, this results in a risk to the quantity, quality and durability of the income over the investment horizon. In addition, financing may no longer be available. To overcome some of the tangible effects of stigma on a property's marketability, an owner may make a significant outlay in advertising and promotion and/or be resigned to lower than market rents for a period of time.

For the appraiser, the risk of possible changes in marketability, quantity, durability and quality of the income stream could be reconciled in the capitalization rate selected. As an example, the market value of a property generating a net operating income of \$100,000 prior to contamination may be \$1 Million based upon an overall rate of 10%. This rate has been determined using known rates for mortgage and equity components found in the market. In order for the site to comply with currently accepted standards for continued use, the site may require \$200,000 in one-time remediation costs.

Because of stigma, the contaminated property may not attract financing from conventional sources. If mortgage financing is not available, the result is an equity yield rate as the primary component of the capitalization rate. Where the equity rate may normally be estimated to be, say, 14%, additional percentage points should also be factored in to account for the risks of contingent future liability and risk to the quantity, durability and quality of the income stream. This could result in a direct capitalization rate of, say, 19% determined from market sources.

The resulting values of the property are summarized as follows:

Value before contamination:	
(\$100,000 / 10%)	\$1,000,000
Value after	
contamination:	
(\$100,000 / 19%)	\$ 526,315
Indicated damages	
before remediation:	\$ 473,685
Less remediation costs:	\$ 200,000
Costs of stigma	\$ 273,685

Depending upon the perceived risk from contamination, financing may be available for an additional incentive through some unconventional sources. This may take any or all of the following forms:

- reduced loan-to-value ratio
- increased interest rate

## Valuation Method

- decreased loan term
- shortened call period
- additional administrative fees and charges

The willingness of lenders in the financial marketplace to finance an environmentally risky situation, and the terms of financing for a similar non-risky situation, will allow for the development of the costs of the incremental financing. The above example indicating the effects of stigma (in essence the selection of a capitalization rate of 19% versus a normal market rate of 10%) is predicated on rational behaviour of the market place using income based-analysis. Stigma is also caused by irrational behaviour of the market.

### 5.7.2 Intangible Factors of Stigma

Because of the elusive effects of stigma, market information pertaining to a specific contaminant situation may not be available. In addition, measurement of stigma's effects using income-based techniques are not applicable for all situations. The reluctance of potential buyers to take on a once contaminated property because of fears of future liability, and fears of hidden clean-up costs are intangibles that are difficult to translate into a quantifiable costs. Alternative methods for measurement of some of these intangible impacts of stigma may be required.

#### **Alternative Valuation Methods for Stigma**

Alternative methods for measuring stigma's effects, where there is sufficient sales data, include a modified direct sales comparison approach and use of statistical analysis tools such as multiple regression analysis. Where the scope of the study permits, the appraiser may arrange for completion of a consumer preference survey for determination of a stigma adjustment factor.

Statistical regression analysis and consumer preference surveys have been used by some firms for mass appraisal assignments. They have been used to measure the impact of potential contaminants on nearby properties

(e.g., power-line corridors, garbage dumps and airports in close proximity to residential properties).

### **Regression Analysis**

Regression analysis is a modification of the sales comparison approach. For contamination issues, it has been used to determine how an environmental condition has affected a property value, such as the location of a residential neighbourhood next to a dump site, a transportation route, a power line and the like. Such an analysis permits the different elements of a conventional sales adjustment matrix (the adjustment factors of a data bank of sales) to be estimated independently.

Regression analysis allows one variable's effect on market value to be isolated from the other effects on market value. In effect, regression analysis of a large data bank of sales allows an appraiser to objectively determine which factors, including contamination, are influencing the prices paid for the comparable sales collected and how much weight to place on each.

### **Consumer Preference Surveys**

Consumer preference surveys can be used to determine attitudes on contamination issues. These surveys may involve formal interviews with informed buyers, sellers, brokers and lenders. The survey/interviews typically track reactions and attitudes towards hypothetical contaminant situations and compare the results with reactions and attitudes in non-contaminant situations. The hypothetical situations are then concluded to represent with some reliability actual choices of the market.

In both the above survey methods, the results of the surveys can provide the appraiser with supportable market information with which to determine an appropriate adjustment factor to substantiate the effects of stigma.

## **Modified Sales Comparison Approach**

Through extensive research, appraisers may find relevant information concerning property transactions that were not completed because of the discovery of contamination and properties that have been sold in an impaired condition. This evidence can be assembled and analyzed to provide support for a discount due to stigma.

In general terms, the format for each index property would include the establishment of an unimpaired value from a previous sale, a purchase offer prior to discovery of contamination, or an appraisal. The cost of remediation as well as the actual impaired selling price should be deducted from this value. The difference between the two is an indication of the value loss caused by stigma factors alone. This stigma loss should then be expressed as a percentage of the unimpaired value.

These “contamination indices” should not be held as comparable to a subject property in terms of physical characteristics or location. The comparability lies in the similarity of their contamination problems. These contamination indices may be drawn from a widely diverse group of property types, but can still be applicable to a subject property for purposes of estimating the value loss caused by stigma. It is recommended that these indices be used as a confirming approach to value rather than as a primary indicator of value.

### **5.8 Valuing as if Free of Contamination**

Clients may request an appraisal of real estate that is or may be contaminated under the hypothetical condition that the real estate is free of contamination. An appraiser may appraise interests in real estate that is believed to be contaminated based on this hypothetical condition only when:

- the resulting appraisal is not misleading,
- a client has been advised of the limitation,
- there is clear and accurate disclosure of the factual contamination problem, and

- there is a statement concerning the effect the hypothetical condition has on the result of the appraisal.

The appraiser should understand that the value of a contaminated property may not be measurable by simply deducting the remediation costs from the value as if unaffected. Other factors may influence value and must be considered, including the impact of stigma and the possibility of change in highest and best use, as well as potential income.

## **6.0 ENSURING THE APPRAISAL REPORT IS NOT MISLEADING**

6.1 The appraisal report is the appraiser's representative when it is reviewed and examined by others. It is important therefore, to ensure that the report conveys due diligence in what the appraiser did, what the appraiser knows, and the basis for all other facts. The report must also contain appropriate limiting conditions and qualifiers to prevent its misuse.

### **6.2 Assumptions and Limiting Conditions**

The standards of professional practice require the appraiser to clearly and accurately disclose any extraordinary assumptions or limiting conditions that directly affect the appraisal and indicate an impact on value.

The appraiser, as stated previously, may accept an assignment that would exclude consideration of hazardous substances (both known and unknown), provided that the resulting appraisal is not misleading, and the report contains qualifiers that reflect this limitation. This can be accomplished with use of appropriate "departure provisions". Departure provisions would include:

- a suitable disclosure or limiting condition,
- an appropriate statement of purpose, and
- properly qualified conclusions in the report.

Some suitable clauses for the Assumptions and Limiting Conditions section of a report for specific situations are suggested as follows:

### **No Evidence of Contamination**

"This report has been prepared on the assumption that the property complies with all requirements of the authorities having jurisdiction over environmental matters. The value reported may not reflect the actual market value of the property should the property be found to be contaminated."

### **Some Possibility of Contamination**

"The subject property is located in an area having an industrial-use history, suggesting the possibility of environmental contaminants. While no evidence of contaminants was noted, should such contaminants exist, the estimate of value contained within this report may not reflect the actual value of the property."

### **Contamination Is Reported But Appraised as If Uncontaminated**

"In accordance with the clients's instructions, the estimated value reported herein reflects the total value of the subject property, as if unaffected by (*e.g., asbestos*). It is reported that asbestos may have a negative influence on the value of the subject property, but the consideration of the effects of asbestos on the value of the subject property is beyond the purpose and scope of this appraisal. The appraiser cautions against the use of this appraisal without knowledge of the intended purposes and limited scope of the appraisal."



## **Disclaimer for Matters Beyond the Appraiser's Level of Expertise**

“Unless otherwise stated in this report, the existence of hazardous substances, including without limitation asbestos, polychlorinated biphenyl, petroleum leakage, or agricultural chemicals, that may be present on the property, or other environmental conditions, were not called to the attention of the appraiser nor did the appraiser become aware of such during the inspection. The appraiser has no knowledge of the existence of such materials on or in the property unless otherwise stated. The appraiser, however, is not qualified to test such substances or conditions. If the presence of such substances, such as asbestos, urea formaldehyde foam insulation, or other hazardous substances or environmental conditions, may affect the value of the property, the value estimated is predicated on the assumption that there is no such condition on or in the property or in such proximity thereto that it would cause a loss in value.

No responsibility is assumed for any such conditions, nor for any expertise or engineering knowledge required to discover them.”.

## APPENDIX A

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## APPENDIX B

# Environmental Law in Canada

Jurisdiction over environmental issues is shared by the federal and provincial governments, with local government agencies and boards also having certain regulatory responsibilities. On policy and regulatory matters of common concern, the respective federal and provincial governments have an advisory body, the Canadian Council of Ministers of the Environment (CCME). This council provides guidance to authorities on common environmental concerns, and often provides a base for establishing the framework of environmental legislation and regulations.

### 1. Federal Legislation

Environment Canada and Health Canada implement guidelines set out in the *Canadian Environmental Protection Act* (CEPA). Establishing the federal role in environmental legislation, the CEPA:

- Consolidates various existing federal pieces of legislation;
- Provides a broad regulatory framework for managing contamination caused by toxic substances (regulating the life cycle of toxic substances from development and manufacture, through transport, distribution, use and storage and to ultimate disposal);
- Acts as an “enabling statute” (i.e., provides the legislative framework for additional standards and guidelines as required);
- Enables federal authorities to hold property owners liable for identified hazardous substances found at a site, including soil and ground water contaminated by hazardous substances;
- Gives equivalent or higher provincial regulations priority and will generally exempt that province (in other words, the CEPA is viewed as the minimum standard).

Other acts include *The Fisheries Act*, by which the unauthorized harmful alteration, disruption, or destruction of fish habitat is an offence. In addition, the *Transportation of Dangerous Goods Act* defines dangerous goods and provides for standards to be used in their transport.

The above acts are binding on the federal and provincial Crown. Government departments, officials and employees are subject to prosecution for violations of these environmental statutes.

Most environmental land use legislation at the federal level is overlapped by legislation, regulations and activities at the provincial and municipal level. Except where federal properties are concerned, the real estate appraiser would have little involvement with the federal jurisdiction in determining the impact of environmental concerns on real estate.

## 2. **Provincial Legislation**

Legislation in each province provides contamination standards and enforcement measures that cover both worker health and safety (e.g., safe handling of asbestos that may occur in office buildings) and property uses.

For property uses, provincial legislation typically governs the management of waste, toxic waste storage, transportation or disposal, and permits authorities to deal with emergency toxic spills. Land title or land registry systems usually provide provincial environmental officials with the ability to register on title notices regarding contamination. Provincial legislation also enables municipalities to adopt a wide range of bylaws and policies that could affect the rights and duties of owners of contaminated land.

## 3. **Local Authorities**

Municipal and regional government authorities often deal with environmental and real property matters through the authority delegated to them by provincial acts and regulations. Such regulations cover many activities, and include building and fire safety standards, waste management, land use and development controls, health standards and soil and material disposition.

## 4. **Enforcement Provisions**

Legislation in most provinces make provision for authorities to deal with contaminants. Action may be in the form of a remedial order, preventative order, waste removal order, control order, a stop order or direct remedial action. The cost of remedial measures taken by a public authority can then be registered as a debt due the province.

In several provinces, statutory provisions permit the accumulated environmental clean-up costs to be added to a property's tax rolls. As part of the municipal tax bill this debt then has priority over other property encumbrances which include mortgages. This may have liability consequences on not only the property owner but also the mortgage lenders where the clean-up costs may exceed any equity in the real estate.

## 5. **Liability for Contaminant Costs**

A CCME committee issued a report in March 1993, titled *Contaminated Site Liability Report* making recommendations as to which parties can be held liable for contamination. The report recommendations, which borrow from environmental legislation from various provinces, outline principles for contaminated site remediation and identify specific transaction situation factors where present or previous owners may be liable. The situation factors, as stated, include:

- “- whether the substance was present at the site when he took ownership;
- whether the owner ought to have reasonably known of the presence of the substances when he took ownership;
- whether the substance ought to have been discovered by the owner when he took ownership, had he taken reasonable steps to determine the existence of contaminants at the site;
- the price the owner paid for the site and the relationship between that price and the fair market value of the property and the substance not been present at the site at the time of purchase;

- with respect to a previous owner, whether that owner sold the property without disclosing the presence of the substance at the site to the purchaser.”.

While this may reflect the framework for proposed legislation; in some provinces an order for clean-up directed to a particular party may not necessarily be based on causation, fault or negligence. For example, in Ontario a landlord may be ordered to clean up contamination caused entirely by tenants or others without a landowner's knowledge. Similarly a mortgagee who takes control of a property to realize on its security can be ordered to clean up historic contamination of the property even though the contamination predates the mortgagee's interest in the property. This approach facilitates government's ability to require those who have “deep pockets” to pay for the cost of clean-up as opposed to the concept of “polluter pays”.

## 6. **Appraiser's Liability**

An appraiser has a duty of care to any person who the appraiser knows, or can reasonably be expected will consult or rely on an appraisal report. This duty of care obliges the appraiser to make reasonable enquiries and to communicate relevant information to all parties. Because the appraiser's evidence can influence decisions concerning the ownership of contaminated land, the possibility exists that the appraiser may be named in litigation should difficulties arise.

## 7. **Managing Environmental Risks**

In response to legislation and potential liability concerns, lending institutions and firms involved in land management in both the private and public sectors initiated contaminated site investigation programs that have commonly evolved into a three-phase investigation process. The process is variously known as an environmental site assessment/investigation, environmental audit, or property transfer assessment.

### **Three Phase Audits**

The three-phase program generally begins with a Phase 1 investigation. Phase 1 is a preliminary survey that involves determining if there is a reasonable basis to suspect an environmental hazard is present.

Phase 2 is a more detailed investigation designed to confirm or deny by scientifically and legally accepted methods the existence of a suspected contamination risk.

Phase 3 of the investigation involves determining the extent of an identified risk, and developing an appropriate plan to reduce the risk to an accepted level.

Occasionally appraisers are asked to participate in these investigations by completing a Phase 1 checklist or questionnaire. Depending upon the property being assessed and the proposed use of the site, the level of detail and the scope of the assessment may vary. As well, an appraiser may not have the required qualifications to complete a Phase 1 assessment.

If agent's or appraiser's rely on the professional analysis or opinion of others, they must indicate clearly and precisely the source of the professional analysis and opinion for which they do not accept responsibility. Otherwise, the appraiser may be found to have accepted responsibility for the analysis or opinion provided by other professionals.

**APPENDIX C****Property Condition Questionnaire For Use By Appraisers**

PREPARED FOR

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OWNER

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PROPERTY ADDRESS

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---

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DATE &amp; TIME OF INSPECTION

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SITE CONTACT PERSON

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TITLE

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**Appraiser's Instructions:**

This questionnaire will assist the appraiser in recording information regarding the physical condition of the property obtained through direct observation and enquiry. It is for use during the course of a site visit wherever possible conducted together with the owner, lessee, occupant, property manager, chief physical plant supervisor, head maintenance person or their delegate.

The information categories contained in this questionnaire consist of a series of questions, most requiring either: a "Yes", "No", or "Unknown" response, unless otherwise stated. "Yes" or "No" provides a definite response to a question based upon factual data. An "Unknown" response is used in the case of insufficient data. A written explanation justifying an unknown response should be provided. The comments section should also be completed for any affirmative responses.

If not in the accompanying appraisal report, photographs of the property, dated, taken both inside any buildings and around the grounds (including adjacent sites), and labelled with the site description of the view, must be appended to this questionnaire. Please feel free to attach a supplemental section for comments if needed.



**OBVIOUS CONTAMINATION**

1. Did you observe any areas with stains on the ground or with dead or stressed vegetation?

Yes No Unknown

Comments: \_\_\_\_\_  
\_\_\_\_\_

2. Did you see any signs of discoloured/oily surface water, including drainage or seepage into or from neighbouring waterways?

Yes No Unknown

Comments: \_\_\_\_\_  
\_\_\_\_\_

3. Based upon either direct observation or enquiry of the representative from the owner, tenant or property management company accompanying you on your site inspection, is ground water (well water) used by nearby residents, municipalities or industries?

Yes No Unknown

Comments: \_\_\_\_\_  
\_\_\_\_\_

4. During your site visit, did you see any discharge pipes, drains, or other conduits or containers draining or leaking anything but rainwater into or onto the ground or any other indication of surface soil contamination?

Yes No Unknown

Comments: \_\_\_\_\_  
\_\_\_\_\_

5. Could you detect any foul/unusual odours or air emissions?

Yes No Unknown

Comments: \_\_\_\_\_  
\_\_\_\_\_

6. Did you see any signs of discharge of smoke or vapours?

Yes

No

Unknown

Comments: \_\_\_\_\_  
\_\_\_\_\_

- 7. Did you see any signs that smelters or incinerators are or have been in operation in this or adjacent facilities?

Yes

No

Unknown

Describe: \_\_\_\_\_  
\_\_\_\_\_

**HAZARDOUS MATERIALS AND WASTE**

- 8. Did you see any chemicals, pesticides, cleaners, oils, solvents, or other similar materials, stored in closed drums or other closed containers?

Yes

No

Unknown

Comments: \_\_\_\_\_  
\_\_\_\_\_

- 9. If yes to #8, is there any evidence of spills, leaks, or discharges to the ground from such drums or containers?

Yes

No

Unknown

Comments: \_\_\_\_\_  
\_\_\_\_\_

- 10. Did you see any signs of spills in areas such as loading docks, railroad sidings and shipping areas where materials are commonly transferred?

Yes

No

Unknown

Comments: \_\_\_\_\_  
\_\_\_\_\_

11. Did you see any signs of leakage or spillage from drains, pipes or machinery?

Yes

No

Unknown

Comments:

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**POLYCHLORINATED BIPHENYLS (PCBs)**

12. Have you ever heard, read, or do you have any reason to believe that there may be any PCBs present on the property?

Yes

No

Unknown

Comments:

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13. Ask the representative from the owner, tenant or property management company accompanying you on your site inspection, whether he/she knows, has ever heard of or has had reason to believe there are or have been PCB's on the property and if so indicate where PCB-containing electrical equipment and other PCB containers are located.

Yes

No  
respond

Did not

Comments:

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14. Is any of the electrical equipment present at the property, including any electrical equipment pointed out by the owner, tenant or management representative, and/or any other PCB-containing material, marked with Environments Canada labels (black and white, or green and white) for contaminated property?

Yes

No

Unknown

Comments:

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15. If such electrical equipment and/or other material noted in #14 is present at the property, is there evidence of leaks or spills on the ground adjacent to any of it?

Yes

No

Unknown

Comments:

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**RADIOACTIVE MATERIAL**

16. Have you ever heard, read or do you have any reason to believe that there may be any radioactivity associated with this property?

Yes

No

Unknown

Comments:

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17. Ask the representative of the owner, tenant or property management company accompanying you on your site inspection, whether he/she knows, has ever heard of, or has had reason to believe there are or have been radioactive materials on the property?

Yes

No  
respond

Did not

Comments:

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**EASEMENTS**

18. Did you see any cross-property easements such as roadways, pipelines, rail lines, etc.?

Yes

No

Unknown

Comments:

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19. Do you have any reason to believe there is , or were you able to observe anything on these easements such as stained or oily areas on the ground, any transformers, switching boxes, storage containers, or other items which could be an indication of possible environmental hazard, and which should be investigated further?

Yes No Unknown

Comments: \_\_\_\_\_  
\_\_\_\_\_

**DUMPING AREAS**

20. Does the property have any pits, ponds, lagoons, or other dumping areas on site (other than normal water retention ponds required by some jurisdictions)?

Yes No Unknown

Comments: \_\_\_\_\_  
\_\_\_\_\_

21. Did you see any heaps, mounds, depressions or sinkholes?

Yes No Unknown

Comments: \_\_\_\_\_  
\_\_\_\_\_

**ASBESTOS**

22. Does a walk-through of the property reveal any obvious evidence of insulation, fire proofing, or building materials that appear to be friable (i.e., easily crumbled), flaking, damaged or broken? If yes, please indicate area affected.

Yes No Unknown

- Pipe Insulation
- Duct Insulation
- Boiler Insulation
- Ceiling tiles
- Sprayed-on ceiling
- Stucco, plaster, fibreboard/wall finish
- Roofing materials

Comments: \_\_\_\_\_  
\_\_\_\_\_











38. Did you inspect all of the property and all parts of all buildings?

Yes

No

Unknown

If no, what parts of the property or buildings were not inspected?

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**GENERAL COMMENTS**

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**LIMITING CONDITIONS**

This checklist is the report of a professional property appraiser and does not constitute the report of an expert in environmental risk assessment. It is intended only to report on those matters which are readily observable by a site visit.

No warranty or representation is made beyond the statements in this report. The fact that any particular hazard was not observed does not constitute any warranty or representation that any particular hazard does not exist.

To obtain further and more detailed information with respect to the environmental condition of the property, it will be necessary to use the services of an appropriate expert in environmental matters.

This completed property condition questionnaire is intended for the use of the client, its agents, employees, representatives, consultants, counsel and the like. No information pertaining to the questionnaire shall be released by the appraiser to any other person unless authorized in writing by the client.

This property condition questionnaire is prepared at the request of (*client*) in support of an appraisal of market value. It is not reasonable for any person other than the (*client*) to rely upon this questionnaire without first obtaining written authorization from (*client*) and this appraiser. The report is prepared on the assumption that no other person will rely on it for any other purpose and that all liability to all such persons is denied.

Prepared by \_\_\_\_\_  
Accreditation/Designation \_\_\_\_\_

Signature \_\_\_\_\_

Date \_\_\_\_\_

Firm name/Address \_\_\_\_\_

\_\_\_\_\_

**APPRAISAL GUIDELINES**

**Water Lots**

**PURPOSE**

These guidelines provide an understanding of the policy on water lot appraisals, riparian and other rights and legislation affecting water lots, and describes the basic methods for the valuation of water lots.

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1.0 Preface ..... 1

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3.0 Water Lot Characteristics ..... 2

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**APPENDICES**

- A Riparian Rights -- A Detailed Discussion
- B Terms Related to Submerged Land
- C Court Cases Involving Riparian Rights & Market Value of Water Lots
- D Bibliography of Water Lot Information

## 1.0 PREFACE

- 1.1 Estimating the market value of submerged lands is one of the most challenging assignments an appraiser will face. Because of the difficulty in finding tangible market evidence of water lot transactions, the appraiser's conclusions may often appear to rely heavily on subjective analysis.
- 1.2 There are no miracle techniques to simplify the problem of water lot appraisals. To minimize objectivity concerns and to ensure that the value conclusion is accepted by the market place, the appraiser must provide a convincing analysis of all factors affecting the use of the waterlot. Moreover, the appraiser must understand some basic terms, characteristics, rights, legislation and regulations concerning the use of water lots.
- 1.3 To assist appraisers in their analysis and evaluation, this guide:
  - describes the characteristics of a water lot,
  - indicates the rights affecting the waterlot,
  - outlines some typical problems in the appraisal of a water lot, and
  - describes the basic methods for the valuation of water lots.

## 2.0 POLICY

- 2.1 Water lots must be appraised in accordance with standard professional appraisal practises. This guideline describes the basic methods for the valuation of water lots.
- 2.2 When appraising a water lot for purposes of transfer of ownership, the appraiser must obtain appropriate information concerning a description of the subject property, and all rights of ownership, including federal and provincial legislation affecting its usage from the PWGSC Regional Land Surveys Officer and/or Department of Justice Legal Services Officer.
- 2.3 When basing the value of a water lot as a percentage of the upland value (see paragraph 6.7), the report must contain justification for the percentage applied. Ideally, the justification will consist of an analysis of appropriate market data.

### **3.0 WATER LOT CHARACTERISTICS**

#### **3.1 Definition of a Water Lot**

The Appraisal Journal (Volume 45, No. 1, P. 70) defines water lot as “an area of land either contiguous or attached to dry land, or it may be entirely separated from dry land; and is usually covered with water, but not necessarily at low tide. It may be partially filled”.

Simply put, a water lot is “land” covered by water at some time. The depth of the water covering the land can be an important factor in determining the highest and best use or proposed use.

#### **3.2 Title to Water Lots**

Historically, like upland properties, submerged lands within navigable waters are under the jurisdiction of respective provincial crown agencies or, in some instances, a federal crown agency. A water lot is established when a patent describing the land is created by the provincial or federal Crown usually through the issuance of an Order-in-Council. The appropriate land title or land registry office will then create an abstract of title for the water lot area. The abstract of title is a chronological statement of the instruments and events under which a person is entitled to property.

As water lots can have an impact on the rights of other private and public interests (e.g., upland owners' riparian rights and public water navigation), they are subject to numerous acts and regulations. In addition, crown agencies have preferred to lease water lot areas rather than sell the fee simple interests, although there are instances where the fee simple interests of water lots are held privately.

#### **3.3 Typical Water Lot Use**

Water lots were created to provide specific rights of use to defined water lot areas, usually for the following five basic uses:

#### **Navigational**

- a. Dock access
- b. Navigational aids
- d. Loading and unloading
- e. Temporary mooring
- f. Breakwaters, training walls, dykes

#### **Storage Lots**

- a. Storage of ships, barges, houseboats, aircraft etc.
- b. Log storage
- c. Shipbuilding and vessel repair

#### **Recreational Lots**

- a. Marinas, private moorage
- b. Pleasure craft storage
- c. Clear view aesthetics and environmental protection
- d. Boat launching ramps

#### **Providing an Extension to Uplands**

- a. Land Fill
- b. Wharves and Docks
- c. Piers (supporting a building structure or decking)
- d. Water Intake Pipes & Submerged Utility Cables
- e. Houseboat sites and year round “live-aboards”
- f. Bridges and abutments

#### **Aquaculture Lands**

- a. Commercial shellfish and salmon net pens
- b. Recreational shellfish harvesting

#### **3.4 Functions of Appraisals of Water Lots**

Generally PWGSC's clients require valuations of water lots for two functions:

- to support an acquisition or sale of lands from or to an owner other than the federal Crown. In these instances, a market value estimate is required, as is required for other types of real estate transactions; and
- to provide a basis on which rental rates can be established for the purpose of leasing the water lot. In this case, valuation might not be based on the market value of the property, but on a formula in accordance with an established policy or convention.

## **4.0 PROBLEMS CONFRONTING THE WATER LOT APPRAISER**

The water lot appraiser encounters a number of concerns not usually experienced by the upland appraiser. These include a lack of comparable market data in a given area, unusual legal and regulatory factors affecting water lot usage, and physical characteristics of a water lot which may be difficult to determine or document, let alone translate into a value.

### **4.1 Lack of Comparable Market Data**

Because there may be few open market sales and little leasing activity, the appraiser often finds it difficult to use the Direct Comparison Approach. The vast majority of water lots are owned by either the provincial or federal Crown. Government agencies over the years have preferred to lease out water lot areas rather than sell the fee simple rights.

### **4.2 Unusual Legal and Regulatory Factors**

An upland or riparian owner has rights of access to water fronting the upland and rights of usage of water. These rights may have an impact on or restrict the use of the water lot. The appraiser must understand both the rights of upland owners and the rights' effects on a waterlot.

The appraiser must also understand all legal and regulatory factors affecting navigable and non-navigable waters. Water lots are subject to numerous federal and provincial acts and regulations that specifically control water lot usage. The appraiser must either be aware of or seek specialised advice concerning legal uses of the water lot.

### **4.3 Limited Supply/Demand Factors**

Because of the riparian rights of upland owners, water lots are often not developed independently but rather in conjunction with the upland. The value of this type of water lot to the owner of the upland is therefore latent, whereby the water lot generally gains significance only when the contiguous upland owner desires it. In many situations, the demand for a water lot is initiated by an upland user. The appraiser may have difficulty analyzing normal supply/demand forces affecting the market for water lots. The highest and best use under normal market forces may differ from upland dictated uses of the water lot.

### **4.4 Restrictions on Permitted Uses**

Water lot leases ordinarily have restrictions on permitted uses. It is usual, then, for the rental valuation to be predicated on the assumption that the permitted use stated in the lease agreement is the highest and best use. The appraiser must analyze and adjust selected comparable sale or lease properties for these restricted uses.

### **4.5 Physical Characteristics**

The appraiser may find it difficult to inspect, measure and describe the physical factors of a water lot normally considered in analysis of its highest and best use. These factors include:

- accessibility from both the adjacent upland and the nearest navigable channel;
- the water depth;
- easements and restrictions;
- ice conditions;
- low or high exposure to currents, waves, winds;
- period of usability; tidal influences and ice conditions may restrict the use of the water lot area to certain times of the day or seasons,
- availability of services;
- the submerged land surface's topography, and type and nature of the shoreline; and
- proximity/accessibility to markets (e.g., fish processing plants, tourist facilities).

Two seemingly identical upland properties may have water lots attached that are subject to significantly different water or topographical conditions, making comparisons difficult to establish.

Occasionally, surveyors establish the property limits of water lot areas using readily established reference points, rather than basing them on the minimum required area of the user. This results in water lot areas disproportional to the actual needs of and value to the user. The appraiser then has difficulty in determining suitable size adjustment factors for a Direct Comparison Approach.

#### 4.6 Reversionary Crown Interest

Some water lots may have a reversionary Crown interest; that is when the lot is no longer required for its original intended purpose, it reverts back to the provincial Crown. These circumstances may inhibit transfer or redevelopment to a higher use. The appraiser must ensure these factors are considered in the evaluation of comparable sale properties as well as the subject property.

## 5.0 IMPACT OF RIPARIAN RIGHTS & OTHER LEGISLATION

- 5.1 Riparian and other rights, legislation and regulations can have a significant impact on the permitted usage of a water lot area. Riparian rights are perhaps the most common rights affecting all water front lands. In its simplest form, a riparian right is the right of an owner to the use and enjoyment of water that flows across or along his/her land. Littoral rights concern land abutting the shore of the sea or a lake. In English common law, the seashore belongs to the Crown and in most provinces belongs to the provincial crown. In Canada, the word “riparian” has replaced “littoral”, with riparian rights used for all waterfront lands.
- 5.2 There are six categories of common law riparian rights traditionally associated with the ownership of waterfront lands. These are:
- the right of access to the water;
  - the right of drainage;
  - the rights relating to the flow of water;
  - the right to undiminished quality of water (pollution);
  - the right to use of water; and
  - the right of accretion.
- 5.3 Over time, a waterfront owner's right to exercise riparian and littoral rights has been limited to some extent by federal and provincial legislation. These acts include the *Navigable Waters Protection Act*, the *Canada Shipping Act*, *Canada Water Act*, *Dominion Water Power Act*, *National Harbours Board Act*, *Public Works Act*, *Fishing and Recreational Harbours Act* and the *Canadian Environmental Protection Act*.



- 5.4 Land registry and land title legislation in various provincial jurisdictions may override normally recognized riparian rights (e.g. land ownership may be limited to a specific boundary line as opposed to a high water mark, low water mark, or water's edge). In addition, the laws and regulations may differ from province to province. The appraiser must therefore understand the title and legal descriptions of lands of upland owners that may affect the use of water lots, as well as the legislation and regulations where the water lot is located. The appraiser should obtain legal advice, where necessary, to ensure the subject property's proposed or existing usage complies with appropriate federal and provincial legislation and regulations.
- 5.5 A detailed discussion of Riparian Rights is found in the addenda.

## **6.0 APPRAISAL TECHNIQUES**

### **6.1 Seven Alternative Valuation Methods**

The appraiser must understand the physical and regulatory factors that affect the use of the subject and comparable properties for valuation purposes. For valuation analysis, if sufficient comparable data exists, the appraiser will normally use the Direct Comparison Approach for valuing a water lot. However, often the appraiser encounters either a limited market or an absence of market transactions.

Because of the lack of comparable market data and other limitations, five alternative valuation methods are presented that rely on a modified Direct Comparison Approach. In addition, two alternative methods have evolved where there are no comparable sales involving water lots.

### **6.2 Zoning Method**

This method is based on the principle that the value of a water lot decreases as the distance from the upland increases. It is a recognised technique applied to many commercial rental properties where the highest value area is adjacent to the street or high traffic area and a lesser value is given to the rear lands or lowest traffic areas. This permits the appraiser to divide the lot into supportable value zones. For example, the 4-3-2-1 rule has been used in municipal tax assessment practises to value commercial sites on a graduated zoning basis. According to this rule of thumb, the front quarter of the site is worth 40% of the total value, decreasing to the rear quarter valued at 10% of the total.

For application of this principle to water lots, the appraiser must analyze a number of sales of water lots representative of the various zones of the subject property. In this application the nearest 1/4 water lot to the upland may be valued at 40% of the value of the whole; decreasing to 10% of the value of the whole for the quarter of the water lot furthest from the upland. The appraiser then totals the values of the various depth zones for an overall estimate of the market value of the water lot. Caution is advised to apply the four categories to only the usable areas of the water lot. There may be situations where the most outward area of a waterlot area may be unusable, and provide no value in contribution.

This method is considered at best a hypothetical method for estimating the value of a water lot. Without sufficient market data it becomes difficult to determine what comparable water lot sales indices are appropriate market indicators of each zone of the subject. If there is sufficient data on water lots sales available, the appraiser will likely use the Direct Comparison Approach. However, the Zoning Method is best used when sales data may be minimal and in combination with other techniques.

### 6.3 Overall Method

The Overall Method can be used when a water lot is to be valued as part of a combined parcel of upland and water lot. The principle is that the presence of the water lot contributes to the value of a parcel of land that includes both upland and water lot. In this case, the appraiser estimates the market value of the upland and waterlot combined, using a Direct Comparison Approach of other similar sale properties that have upland and water lot areas combined. The upland area of the subject is then applied to this value estimate to provide for a single unit rate representing the value of both areas.

In using this approach, the appraiser must take care to ensure that the comparisons between the subject and the sale properties are appropriate. The properties should have a similar ratio between upland and water lot areas. Adjustments for physical factors affecting both the upland and water lot areas must also be addressed, which could make this process complex.

This method has been accepted by the courts as an appropriate valuation technique. However, it can only be used when valuing the water lot as an integral part of the combined upland and water lot parcel.

### 6.4 Extraction Method

This is an extension of the overall method, where the appraiser estimates a total price for the upland and water lot area combined using the Direct Comparison Approach. The appraiser then determines the value of the upland by itself, using upland sales data (without water lots). Through subtraction of the value of the upland, the appraiser is then able to extract the value of the water lot itself.

### 6.5 Fill Cost Method

Through this method, the value of the water lot as though it were upland is valued first and then a deduction is made for the cost of the fill to provide a value of the water lot itself. The value of the filled water lot area is estimated first by way of the Direct Comparison Approach. Adjustments would normally be made to comparative upland properties to consider the fill area's lack of services. The appraiser then estimates the cost of adding fill to convert the water lot to a dry land area. The value of the water lot is then determined by subtracting the cost of the fill from the filled water lot area value. For example, if the upland value to be applied to the fill area after adjustment is \$800 per square metre when compared to competitive upland areas, and the cost of fill is \$600 per square metre, then the value of the water lot area existing prior to any attempt to fill is \$200 per square metre.

In practice, the appraiser may encounter some difficulty obtaining reasonable estimates by this method. Not every addition to an upland will necessarily achieve the full value of that upland. As well, the cost of fill will often exceed the value of the waterlot as upland. Expenses may be encountered for other related expenses, such as the cost of pilings, and soft costs such as the legal expenses necessary for regulatory approval to fill a hypothetical water lot. All such costs must be factored into the analysis.

The viability of filling the water lot will depend on the cost and availability of suitable fill and on the demand for such land when the filling operation is complete. A further complication is that the deeper the water, the more fill is required - resulting in less value for the water lot. In addition, unless vertical retainers are used, any filling of a water lot must create a smaller area of dry land in accordance to the required angle of repose, as all fill must be within the water lot's boundaries.

In using this method of valuation, the appraiser must ensure that the highest and best use indicates that an extension of the surface of the adjacent upland is appropriate. There is a danger that the appraiser's value may reflect an amount that the upland owner is willing to pay to extend the upland area rather than the price which a typical buyer would be prepared to pay for the same water lot for water lot usage.

#### **6.6 Capitalization of Water Lot Rent Method**

Where there is an inactive market of water lot sales, the appraiser may find some activity with leasehold properties. Ground rent capitalization is an accepted land valuation technique which may be appropriate for water lots. It can be applied to the valuation of water lots by capitalizing the annualized net income of the rent proceeds obtained from a water lot. The appraiser must ensure that the rent rate used for capitalization is considered market and appropriately derived from arm's length rental transactions. There is a risk that the rental rate used may be based upon a use or utility value method, resulting in a "chicken or egg" situation. In other words, the rent used in estimating a capital value itself should not be based upon a hypothetical water lot value.

#### **6.7 Water Lot Value as a Percentage of Upland Value**

With this method, the appraiser establishes the value of uplands in the vicinity of the water lot being appraised and applies an appropriate percentage representing the value of the water lot in proportion to the value of the upland. In such cases, information, albeit sparse, must be analyzed to support the ratio of water lot value to upland value.

The appraiser must exercise considerable judgement in estimating a reasonable ratio of value between upland and water lot. In practice, this percentage has varied considerably - reported to range from 10% to 25% in eastern Canada and to 40% in western Canada. Appraisers have selected these percentages with perhaps more consideration being given to established pricing practices than to the existing or potential use of the water lot. These percentages may not be substantiated in all cases. However, existing file information and past analysis by some appraisers indicate that the few sales that have taken place tend to support these ranges.

#### **6.8 Utility Value**

The Utility Value method is an accepted practise in some areas of British Columbia for rent setting purposes. While there may be a ratio of value between upland and water lot area, the ratio can vary depending on the degree of use being made of the water lot area. The basic premise is that the use of the submerged land is integrated with the upland use, one being just as important to the overall use as the other. In the simplest application of this approach, once a wharf, pier or other structure is constructed on pilings or other structures sunk into a portion of a water lot, the appraiser considers the area of the water lot covered by the structure equivalent in utility to the upland; thus equal in value. The balance of the water lot then has successively decreasing values based upon intensity of use in relation to the area covered by the structure.

The Utility Value Method as applied in B.C. incorporates the following steps:

1. Each specific water lot fronting upland within a defined zone is surveyed and its area segmented into four defined categories of use by the client. Each category is determined based upon the intensity of existing or projected use it has with an upland zone use. The accepted categories of each waterlot, and their respective intensities of use expressed as a percentage of upland use are as follows:

- 100% - areas covered by fill, wharves, piers or any other permanent structure,
  - 50% - areas covered by gangways, floats, boathouses, berthage areas, mill ponds,
  - 25% reasonable ingress/egress to high use areas, and
  - 10% exclusive use intertidal areas and excess area of waterlot.
2. The appraiser defines the upland zones used for determining a comparable upland value using the following criteria:
    - proximity of the waterlots to the nearest municipality or urban area,
    - common geographic features found in the upland area, and
    - similar land uses found in the upland area which correspond to the types of uses permitted in the water lot areas.
  3. The appraiser examines sales activity in the defined upland zones and then estimates a zonal value for a similar category of water lot use. Assuming, for example, water lot uses in front of the upland within a defined upland zone are industrial in nature, the appraiser estimates an industrial land zone value based upon an average of market sales of comparable industrial land uses for a given period of time within that defined zone. The zonal value is normally expressed as a price per unit such as \$ X per ha or per sq. metre.
  4. The water lot value is then determined by applying the upland zonal value rate to each category of water lot area at the specific percentage. The utility value of the water lot is then the sum of the values for each of the categories.

The value estimated by the appraiser is considered a utility value and is used for rent setting purposes only. To convert this value to rent, the utility value is then multiplied by an appropriate percentage given by the client. This method has been accepted by landlords and lessees such as harbour commissions and their tenants in British Columbia.

The water lot Utility Value Method is so labelled since it reflects a specific use value. Only where the use value coincides with a value in its highest and best use can it be considered an estimate of market value. Some may argue that since the rental rates resulting from this approach are accepted in the market, the capitalized value (where market determined rates are used) of the waterlot rental rates can provide an indication of market value. Others allege that the monopoly situation enjoyed by the harbour commissions in determining water lot uses, supply, and value approaches, in realty, distort the market.

The Guideline on Summary Appraisal Reports (Form Reports) #1B3 includes a sample of the "Water Lot Utility Report" as applied in British Columbia.

#### 6.9 Water Lots Surrounded by Submerged Lands

The techniques for valuation of water lots surrounded by submerged lands might be similar to those outlined above for valuation of water lots adjacent to dry land. The highest and best use of such a property may be so specialised or of such limited market appeal that only a use value may be applicable.

A possible technique would require the appraiser to compare the water lot surrounded by submerged lands with non-waterfront land where a co- relationship of use can be established (e.g., a lumberyard on dry land to log storage on a water lot). Adjustments for storage capacity, time usable, etc., would be required. The appraiser might consider this method appropriate, although the adjustments may be difficult to support.

#### 6.10 Improved Water Lots

When the appraiser must estimate the value of an improved water lot, he/she may use any one or a combination of the above methods to provide an estimate of value "as if vacant and unimproved". The value of improvements can then be estimated and added to this vacant land value. The appraiser can estimate the value of the improvements by using a cost approach indicated

in the Fill Cost method or by using an income approach.

The income approach will consider the economic value that might be generated from a water lot improved with a wharf. Here the appraiser estimates the net income that the wharf is able to generate after deduction of annualized costs of operating and structural maintenance, taxes and management from the rent. The net income is capitalised at an appropriate rate determined from the market for an estimate of the value of the water lot and improvements.

## 7.0 SUMMARY

The appraiser is faced with significant issues in the appraisal of a water lot, and must consider the following to provide for a comprehensive analysis:

- In most circumstances there is very little comparable market data of waterlots for direct comparison;
- The appraiser must thoroughly investigate the legislative, regulatory, and physical factors that affect the use of the subject waterlot;
- It is important for the appraiser to understand and analyze local conditions, customs and the behaviour of the local market for an appropriate estimate of market value of water lots;
- To minimise objectivity concerns, the appraiser must present a convincing analysis of all factors affecting the use of the waterlot;
- In many instances the appraiser's estimate is based upon the value which flows from the upland, and may therefore be regarded as a "use value" or "utility value"; and
- Valuation that is based upon a percentage of upland value has been accepted by the market in many situations.

## APPENDIX A

# Riparian Rights -- A Detailed Discussion

In common law the owner of lands adjoining a river, stream or lake has certain rights related to the use of water. The rights arise from the ownership of the bank, that portion which adjoins the upland with the water itself. The latin word for bank is "ripa" hence the rights are called "riparian", and the owner is similarly referred to as "riparian owner". Since riparian rights are part of common law, there is no requirement for them to be expressly conveyed in a deed or title certificate.

In Canadian law riparian rights may be classified under six categories:

1. the right of access to the water,
2. the right of drainage,
3. the rights relating to the flow of water,
4. the right to undiminished quality of water (pollution),
5. the right to use of water, and
6. the right of accretion.

### 1. **The Right of Access**

Access to the adjoining water is the basic right of a riparian owner. Without access to the water, a riparian owner could not enjoy the other rights.

The right includes access both to and from the water. On tidal waters, this involves the right to go on the shore (i.e., the land between the high and low water mark). On non-tidal rivers or lakes, this involves a right of access over the shoal waters to deeper waters where navigation can practically begin. The right of access extends across the entire length of a riparian owner's land fronting the body of water.

An example where a riparian owner would lose a right of access may involve a situation where land is required for a public work on a portion of the shore located in front of the riparian owner's land. Even though the owner may still have access from a portion of the lands to the water, the owner has lost the right of access to the water from lands fronting the public work itself. This would be considered a compensable item in an expropriation settlement even though no land is taken, and access is still available from other points on the riparian owner's remaining waterfront lands.

The riparian owner's right of access to waters must be distinguished from the public's right of navigation on the water and the public's right to fish. Navigation on a body of water may legally interfere with a riparian owner's right of access to some extent (e.g., a ship or a log boom, depending upon circumstances, temporarily anchored in front of private lands). The public in the exercise of its right of fishing, may, for example, land fish on the shore or dig for clams. While these acts may temporarily obstruct access to some degree, the right of access cannot be blocked by permanent fishing installations.

## 2. **The Right of Drainage**

Owners of land adjoining a natural stream have a right to drain their lands in the stream. Since the natural function of watercourses is to drain land within a specific drainage area, draining lands from areas outside the natural watercourse may increase the flow of water which could have an adverse impact on lands further downstream.

An upper riparian landowner may be held liable for damages to a lower riparian owner's lands. This could occur where an increased flow of water causes damage to the lower lands which is attributable to drainage of lands outside the natural watercourse.

## 3. **The Rights Relating to Flow**

A riparian owner is entitled to certain rights respecting the manner in which water reaches and leaves the land. An owner is entitled to permit water to flow through the lands as it has been accustomed to flow, substantially undiminished in quantity and quality. A riparian owner is also entitled to have water leave the land unobstructed.

There are some underlying rights which have evolved through practical considerations and court decisions. These rights include:

- a) The right to have water flow in its natural course.

While the riparian owner is entitled to have water flow down the stream to his/her land along its regular channel, a riparian owner may alter the course of the stream so long as it is returned to its normal channel without affecting the flow downstream.

- b) The right to prevent the permanent extraction of water from the stream.

If water is diverted from a stream, it must be returned to the stream substantially undiminished in quality and quantity. Accordingly, courts have decided that water diverted for the purpose of irrigation must be done without sensibly diminishing the flow of water downstream.

While a claim for minimal diminution (as in some irrigation projects) may not result in legal redress; where the damages may be appreciable, a claim for damages or an injunction to prevent the diversion may likely be successful. An example of damages being appreciable is where a town will divert water from a stream to suit its municipal requirements, resulting in a diminished downstream flow that leaves the remaining water stagnant and foul.

- c) The right to prevent the alteration of the rate of flow to downstream property.

While a total flow of water downstream might not be affected over a specific period; an upstream owner could potentially alter the times when the water will flow, by increasing or decreasing its rate. This might be required for replenishing a reservoir for an irrigation project, or a head pond for a hydro-electric facility.

With strict interpretation of the principle of an undiminished flow through downstream lands, an upstream riparian owner could be severely restricted in the use of water. The development and maintenance of control dams on an upper riparian owner's lands would be impractical with this type of interpretation. As well, it would be unfair since the upper riparian owner would not have a right equal to that of the lower owner to make use of the water.

Courts have made it clear that a riparian owner is entitled to a reasonable use of water in a stream or on adjoining land which of necessity, affects the flow downstream. Whether a use is reasonable requires consideration of all the circumstances including the size of the stream, the season of the year, the nature of the use and the operations involved.

- d) The right to have water leave land in its accustomed manner

As indicated in a) above, a riparian owner has a right to have water enter lands unobstructed. A riparian owner also has the right to have water leave the land unobstructed. The most frequent source of obstruction to be faced by an upstream owner are dams built downstream which can result in a flooding of upstream lands.

Court decisions have made it clear that any person who interferes with the course of a stream must ensure that the works substituted for the natural channel can adequately carry the water brought downstream.

#### 4. **The Right to Undiminished Quality of Water (Pollution)**

A riparian owner is entitled to the flow of water in its natural state. While an upstream riparian owner has the right to drain lands, the owner is not permitted to collect and discharge contaminants into the stream to the detriment of downstream riparian owners.

An upper riparian owner would not ordinarily be liable, where water in its flow carries with it, for example, oils or salts found naturally in the earth which affects the quality of downstream water.

#### 5. **The Right to Use of Water**

While a riparian owner does not own the water running in a stream, an owner may use it as it passes through the lands. Water cannot be granted, however access easements can be granted by land owners for its use.

Riparian rights of use differ between ordinary and extraordinary uses. The use of water for drinking purposes, watering stock and other domestic purposes such as washing are categorised as "ordinary uses". The use must be closely related to the adjoining land. Should an owner exhaust the water supply through ordinary uses, there is no liability for damages to a downstream riparian owner. Further, water from a stream that is used to supply properties that do not adjoin the stream would be considered extraordinary.

A riparian owner may make use of water for extraordinary purposes so long as it is incidental to the use of the lands. What amounts to an extraordinary purpose will depend on the general conditions in the area and other uses of the stream. A common example is the use of water for running a mill. Unlike a person who uses water for ordinary purposes, one who uses water for extraordinary purposes, must restore it to the stream substantially undiminished in quantity and quality. There is no right of first appropriation. A riparian owner has no first right of use of the water for extraordinary purposes over downstream riparian owners.

#### 6. **The Right of Accretion**



The riparian owner is entitled to land created by accretion. There are two types of accretion. One is created by the gradual and imperceptible deposit of alluvium on the banks of a riparian owner's land. The other results from the gradual and imperceptible recession of the waters to a lower level. In either case the additional dry land normally belongs to the riparian owner. On tidal waters, a riparian owner's right to accreted land occurs only where the lands accreted are above the high water mark.

In practice, distinctions have been made between accretions which result from natural causes and those which result from man-made structures. An accreted portion of land which results from the action of water on man-made structures such as wharves, dikes, or breakwaters may not belong to a riparian owner. Court decisions concerning title to such accreted lands normally consider the circumstances of the land either forming gradually and imperceptibly or suddenly.

Riparian owners have the right to protect their property from invasion of water from the shore. The owners may take steps such as building a bulwark, dike or berm on their side of the water's edge to protect the lands from being washed away.

Encroachment of the water through erosion of the banks can occur because of changes in the flow caused by neighbouring owners. Anyone who for example, either removes material such as sand and gravel from a bed of a stream that may weaken the supporting bank structure, or constructs a barrier such as a breakwater which causes increased wave turbulence in front of a riparian owner's land, can be held liable for damages caused by the resulting erosion.

### **Riparian Rights and Current Legislation**

It may be said that the common law of riparian rights is geared to simpler times where perhaps only an adjoining owner was affected by waters. Today water affects more than the rights of adjoining owners of land, it affects the interests of the public.

To meet the demands of contemporary society it has been the practise to obtain statutory powers whenever they are seen to be for the public good. Over time, a waterfront owner's right to exercise riparian and littoral rights has been limited to some extent by federal and provincial legislation. In Canada to-day, the issue of riparian rights as developed under common law, is linked with the demands of contemporary society through many acts and regulations. This legislation includes the *Navigable Water's Protection Act*, the *Canadian Environmental Protection Act* and its provincial equivalents, the *Fisheries Act*, the *Commercial Fishing and Recreational Harbours Act*, the *Canada Shipping Act*, the *National Harbours Board Act*, the *Dominion Water Power Act*, the *Railway Act*, the *Public Works Act*, the *Expropriation Act*, and the *Land Titles Act*.

As an example of the above, the *Navigable Waters Protection Act* limits an owner's riparian rights. By this act, federal government approval is required to construct works on navigable waters. The federal government may also remove all works built without federal approval.

## APPENDIX B

# Terms Related to Submerged Lands

**ACCRETION** - The gradual and imperceptible increase in an area of land by natural causes e.g., by alluvial deposits resulting from movements of a river course or of the sea. Accretion can be caused by the washing up of silt or sand.

**AIR RIGHTS** - the use of air space above the water, the ground or a structure without impeding the original use of the property.

**BEACH AND DEEP WATER LOT** - a term used in some regions to describe and make a distinction between the portion of a water lot that is located between the high and low water marks and that portion if any, located below the low water mark (the portion of the water lot submerged on a permanent basis).

**BUILDING** - a structure which provides shelter for persons, animals and things. This is not to be confused with crib-work and earth filling done upon a water lot to raise it to the level of the adjoining dry land to render it suitable for the erection of buildings. This may be of significance to some water lot leases where the lessor may agree to pay at the end of a lease for "building and erections" then on the demised premises.

**COASTAL WATERS** - waters facing the sea.

**CONSENT FEE** - amount paid to the adjacent upland owner for his riparian rights, usually an annual fee by agreement.

**DERELICTION** - is the retreat of the sea exposing new land or land formed by the action of receding waters as the change in course of a river. If natural then it belongs to the upland owner.

**EASEMENT** - a right or privilege which the owner of a parcel of land (the owner of the dominant tenement) enjoys over the land of another (the owner of the servient tenement), in order to reap a benefit for the dominant tenement, but without taking any tangible profit from the servient tenement. A limited right to use, or to prevent the use of, the land of another which accommodates or improves the beneficiary's land, but grants no right of possession of land.

**FORESHORE** - The shore of the sea, or of any tidal water, that lies between the limits of the high and low water marks at ordinary tides. An area of land that may extend into creeks, channels, bays, estuaries or up navigable rivers as far as the tide flows; as well as the "sea shore" in common usage. When used in a conveyance, the words "seashore" and "foreshore" have the same meaning.

**LITTORAL** - is the term normally used in respect to tidal waters. The rights concerning land abutting the shore of a sea or a lake. However, this term is often used interchangeably with the term riparian.

**NAVIGATION** - the right of navigation is a right of way which may be enjoyed in the sea, in tidal and in non-tidal waters; and includes all rights necessary for the full enjoyment and exercise of the rights of convenient passage, such as the right to pass, to ground, to anchor, to remain for a reasonable time and for purposes of loading and unloading, or completing repairs; or of waiting till the wind or weather or the season permits the ship to leave.

The right of navigation is paramount to the rights of property of the Crown and its grantees in the bed of a river, and such property cannot be used in any way so as to derogate from or interfere with the public right of navigation.

**NON-NAVIGABLE WATERS** - a river is non-navigable when its water cannot be used for navigable or wood floatation. In most cases, non-navigable waters can be identified (swamps, creeks, dammed lakes, etc.). In doubtful situations, legal opinion should be obtained.

**NON-TIDAL WATERS** - waters not affected by tides usually refer to inland waters such as lakes, rivers, etc. An owner of land that normally adjoins a non-tidal watercourse may own the bed of the watercourse up to the centre - *ad medium filum aquae* depending on specific title descriptions and conveyancing intent.

**RIPARIAN RIGHTS** - pertain to the rights and privileges that are incidental to the ownership of land fronting on a body of water. The rights appertaining to the land that adjoins or abuts a watercourse or river running between banks.

**SUBMERGED LAND AREA** - is the bed or shore of a lake, river, stream or other body of water below the natural boundary (high water mark).

**SUBMERGED LANDS** - refers to the land area seaward, lakeward or riverward from the mean high water mark of a body of water.

**TIDE FLAT** - is a term used to describe land which is above water at a normal low tide. The bed of a tidal river normally belongs to the Crown unless it has been granted to a subject.

**TIDAL WATERS** - refer to rivers affected by sea waters.

**UPLAND** - waterfront land located above high water mark.

**USE VALUE** - Use value is the value a specific property has for a specific use. If a property's current use is so specialized that there is no demonstrable market for it, but the use is viable and likely to continue, the appraiser may render an estimate of use value. Use value focuses on the value the real estate contributes to the enterprise of which it is apart, without regard to the highest and best use or the monetary amount that might be realised upon its sale.

**UTILITY VALUE** - Is a term used to describe the value of water lot properties for rent setting purposes accepted in some parts of British Columbia by landlords and lessees. Utility value applies to an integrated use of a waterlot with its upland. Its value is determined by applying conventional percentages for categories of use to a zone value of the upland. Zone value is determined by use of a direct comparison approach applied to similar use upland properties for the establishment of an appropriate rate expressed as a price per ha, sq. metre, etc. This zone value is applied at varying percentages to various predetermined areas of a water lot in accordance to their relative utility to the upland.

**WATER LOT** - a legally defined area of land covered by water which may be either contiguous or attached to dry land, or may be separated entirely from dry land, - may be filled, partially filled or not filled - or a piece of land normally covered with water at high tide.

**WORK LINE** - represents the boundary line dividing actual or theoretical upland lots and water lots.

**WORKS** - any improvement to the land that cannot be classified as a building, such as roads, sewers, water supply lines, docks, fences, cribbing, retaining walls, etc.

## APPENDIX C

### Court Cases - Riparian Rights

1. A.G. of Straits Settlement vs. Wemyss (1888) 18 A.C. 192 P.C.
2. Lyons vs. Fishmongus Co.: (1876) 1 A.C. 662 H.L.
3. Both vs. Ratte (1890) 15 A.C. 188
4. Tetreault vs. Montreal Harbour Commissioner (1926) A.C. 229
5. North Shore Railway vs. Pion (1889) 14 A.C. 612
6. Wolfe vs. British Columbia Electric Railway Co. (1949) 1 W.W.R. 1123
7. Clarke vs. City of Edmonton (1930) S.C.R. 1370
8. Young vs. Bankier Distillery Co. (1893) A.C. 691
9. Vaughn vs. Eastern Township Bank (1909) 41 S.C.R. 286
10. V.V. & E. Railway vs. Milsted (1908) 7 W.L.R. 384
11. Cooke vs. Vancouver (1914) 6 W.W.R. 1492
12. Romanica vs. Winnipeg (1921) 2 W.W.R. 339
13. Gerrard vs. Crowe (1921) 1 A.C. 385-397
14. Kennedy vs. Husband (1923) D.L.R. 1069
15. Gillespie vs. Rex, 12 Ex. C.R. 406
16. Res. vs. Hudsons Bay Co. (1961) 17 Ex. C.P. 441
17. Attorney General of B.C. vs. Neilson (1958) S.C.R. 819
18. Carrol vs. Empire Limestone Company, Ont. (1919) 45O.L.R.
19. Georgian Cottagers Association Inc. vs. Corp. of the Township of Flos, Ont. (1962) O.R. 429-435
20. Walker vs. Attorney General of Ontario (1971) 1 O.R. 151-181
21. Keewatin Power Co. vs. Town of Kenora (1906) O.L.R. 232-243
22. McPhee vs. Township of Plymton (1987) D.L.R. 233-255
23. Scarborough Golf & Country Club (1988) D.L.R. 1-17
24. Gibbs vs. Grand Bend (1989) RPR-1990 Volume 7. 13-77

### Court Cases - Market Value of Water Lots

1. City of Saint John vs. Montreal Trust Co. Book 6 Page 398-400 L.C.R. items covered (Market Value - basis of valuation - landlocked parcel below high-water mark submerged at high tide - value based on fact that property useful only for construction of wharf).  
  
For the terms "reasonable and economical" the principle of valuation involved the practical use of the submerged lands as an extension of the upland.
2. Gulf Oil of Canada Limited vs. National Harbours Board, Saint John. Federal Court of Canada, 1971 (Tt-1478-71). The Judge agreed with J. Ross Corbett's (N.H.B.'s appraiser) approach by treating the property's uplands and submerged lands as one entity.
3. Cyril J. O'Hearn vs. The City of Dartmouth, 1980. The Expropriations Compensation Board accepted the opinion that the waterlot area that was expropriated along with some dry up-land area should be valued at 25% of the dry upland value.

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