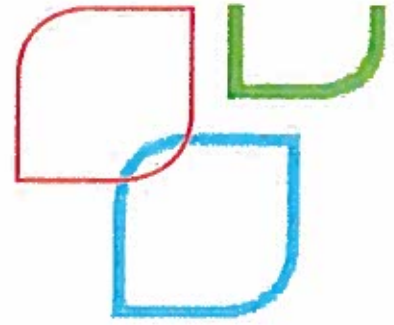


# Appendix I



MUNICIPAL  
PROPERTY  
ASSESSMENT  
CORPORATION



# **METHODOLOGY GUIDE**

## **VALUING LANDS IN TRANSITION IN ONTARIO**

**Valuation Date: January 1, 2016**

**AUGUST 2016**



**MUNICIPAL PROPERTY ASSESSMENT CORPORATION**

August 22, 2016

The Municipal Property Assessment Corporation (MPAC) is responsible for accurately assessing and classifying property in Ontario for the purposes of municipal and education taxes.

In Ontario's assessment system, MPAC assesses your property value every four years. This year, MPAC is updating the value of every property in the province to reflect the legislated valuation date of January 1, 2016.

MPAC is committed to provide Ontario property owners, municipalities and all its stakeholders with the best possible service through transparency, predictability and accuracy in values. As part of this commitment, MPAC has defined three levels of disclosure of information in support of its delivery of this year's assessment update. This Methodology Guide is the first level of information disclosure.

This guide provides an overview of the valuation methodology undertaken by MPAC when assessing lands in transition for this year's update ensuring the methodology for valuing these properties is well documented and in alignment with industry standards.

Property owners can access additional information about their own properties through [aboutmyproperty.ca](http://aboutmyproperty.ca). Login information for [aboutmyproperty.ca](http://aboutmyproperty.ca) is provided on each Property Assessment Notice mailed this year. Additional information about MPAC can be accessed at [mpac.ca](http://mpac.ca).

A handwritten signature in black ink, appearing to read "Antoni Wisniowski".

Antoni Wisniowski

President and Chief Administrative Officer

A handwritten signature in black ink, appearing to read "Rose McLean".

Rose McLean, M.I.M.A.

Chief Operating Officer

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## 1.0 Introduction

The Municipal Property Assessment Corporation (MPAC) – [mpac.ca](http://mpac.ca) – is responsible for accurately assessing and classifying property in Ontario for the purposes of municipal and education taxation.

In Ontario, property assessments are updated on the basis of a four-year assessment cycle. In 2016, MPAC will update the assessments of Ontario's nearly five million properties to reflect the legislated valuation date of January 1, 2016. Assessments updated for the 2016 base year are in effect for the 2017–2020 property tax years.

The last Assessment Update was based on a January 1, 2012, valuation date. Increases between the 2012 assessed value and 2016 assessed value are phased in over a four-year period. Any decreases in assessment are applied immediately.

It is important to ensure that the valuation methodology applied is capable of providing a realistic estimate of current value at the relevant valuation date, which, in turn, enables all stakeholders to understand the valuation process and have confidence in the fairness and consistency of its outcome.

This Methodology Guide has been prepared for the benefit of MPAC assessors, property owners and their representatives, municipalities and their representatives, Assessment Review Board members, provincial officials, and the general public.

This guide outlines the valuation process to be followed by an assessor, including steps that require appraisal judgment. It is incumbent upon the assessor to make informed decisions throughout the valuation process when arriving at estimates of current value.

### 1.1 Properties Covered by This Methodology Guide

This Methodology Guide applies to lands in transition in Ontario, including properties located in designated employment areas. Lands in transition vary from existing vacant land sites to improved properties. The following MPAC property codes are used to categorize the various types of lands in transition in Ontario:

- 100 Vacant residential land (not on water)
- 105 Vacant commercial land
- 106 Vacant industrial land

- 112 Multi-residential vacant land
- 113 Condominium development land – residential (vacant lot)
- 114 Condominium development land – non-residential (vacant lot)
- 115 Lands in transition (value based on alternate use)
- 125 Residential development land
- 127 Townhouse block – freehold units

It should be noted that these are general guidelines that vary depending on the specific circumstances of a particular property.

Property codes are a tool for organizing files at MPAC. Many properties have characteristics of more than one property code. Only one code may be chosen for administrative purposes.

In valuing a property, regard must be had for the actual specifications of the property.

An assessor may also make reference to additional Methodology Guides for properties that do not fall precisely within the description of one of the property codes listed above. For example, when assessing land that is in excess of another use such as shopping centres, industrial properties, office buildings or multi-residential properties, the assessor will refer to additional guides.

## 1.2 Legislation

The main legislation governing the assessment of properties in Ontario for property tax purposes is contained in the Assessment Act.<sup>1</sup>

The Act contains important definitions and states what property is taxable and how it should be valued. Section 19(1) of the Act requires that land be assessed at current value, which is defined to mean, in relation to land, “the amount of money the fee simple, if unencumbered, would realize if sold at arm's length by a willing seller to a willing buyer.”

Legislation also governs the classification of lands in transition.

The Minister of Finance filed Ontario Regulation 430/15 on December 18, 2015, which added additional rules affecting the valuation and classification of properties on which a third-party

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<sup>1</sup> Assessment Act, R.S.O 1990, c A.31: <https://www.ontario.ca/laws/statute/90a31>.

sign (billboard) is located. To comply with the regulation, the income attributable to a third-party sign will not be included in the valuation of any property for assessment purposes.

### 1.3 Classification

MPAC's role is to accurately assess and classify all properties in Ontario. The classification of a property will determine which tax rate will be applied by the municipality or other taxing authority. All properties are classified according to their use and Ontario Regulation 282/98 of the Assessment Act sets out how various property uses are classified.

The classification of lands in transition will depend on whether they are vacant, improved with a structure and/or being used. For value assessments, vacant land is land that has no buildings or structures and is not being used. Vacant land is also land on which a building or structure is being built but has not yet been used or is substantially unusable. For more information on vacant land, see Part I of Ontario Regulation 282/98.<sup>2</sup>

### 1.4 The Use of This Methodology Guide

This Methodology Guide is intended to:

- Ensure MPAC's assessed values for these properties are fair, accurate, predictable and transparent.
- Provide direction to assessors and clear explanations to municipalities, taxpayers and Assessment Review Board members.
- Ensure that MPAC's methodology for valuing these properties is well documented and aligns with industry standards.
- Explain the thought process/decision-making process that an assessor should undertake to apply the valuation methodology.
- Ensure a consistent approach to valuing these property types.
- Support MPAC assessors in conducting their due diligence in:
  - applying Ontario's legislation and regulations
  - adhering to industry standards for market valuation in a mass appraisal environment

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<sup>2</sup> Ontario Regulation 282/98, GENERAL: <https://www.ontario.ca/laws/regulation/980282>.



It should be noted that this Methodology Guide is not intended to be a substitute for an assessor's judgment in arriving at a market value-based assessment (i.e., current value) for a particular property. However, given that the Methodology Guide explains industry standards for property assessment, conforms to valuation industry norms, and adheres to provincial legislation and regulation, MPAC assessors are expected to follow the procedures in the Methodology Guide and be able to clearly and satisfactorily justify any deviations from it.

### **1.5 Consultation and Disclosure**

MPAC is committed to providing municipalities, taxpayers and all its stakeholders with the best possible service through transparency, predictability and accuracy. In support of this commitment, MPAC has defined three levels of disclosure as part of its delivery of the 2016 province-wide Assessment Update.

- **Level 1** – Methodology Guides explaining how MPAC approached the valuation of particular types of property
- **Level 2** – Market Valuation Reports explaining how the methodology outlined in Level 1 has been applied at the sector level for the purposes of each assessment
- **Level 3** – Property Specific Valuation Information available to property taxpayers, their representatives and municipalities

## 2.0 The Valuation Process

The valuation process always begins with a determination of the highest and best use of the subject property.

This guide is designed to assist assessors in the identification of potential lands in transition and in completion of the highest and best use analysis. This analysis must have reference to the value of the property based on its current use and its highest and best use. It is important to note that determination of value based on highest and best use is governed by four tests: physically possible, legally permissible, financially feasible and maximally productive. Further discussion of these tests is provided later in this guide.

Assessors determine the value of a property using one of three different approaches to value:

- the direct (sales) comparison approach
- the income approach
- the cost approach

### 2.1 Outline

In the **direct (sales) comparison approach**, value is indicated by recent sales of comparable properties in the market. In considering any sales evidence, it is critical to ensure that the property sold has a similar or identical highest and best use as the property to be valued.

In the **income approach** (or, more accurately, the income capitalization approach), value is indicated by a property's revenue-earning power, based on the capitalization of income. This method requires a detailed analysis of both income and expenditure, both for the property being valued and other similar properties that may have been sold, in order to ascertain the anticipated revenue and expenses, along with the relevant capitalization rate.

In the **cost approach**, value is estimated as the current cost of reproducing or replacing improvements of the land (including buildings, structures and other taxable components), less any loss in value resulting from depreciation. The market value of the land is then added.

MPAC primarily uses the direct (sales) comparison approach to determine value of lands in transition.

This approach involves the analysis of sales to determine that the motivation of the purchaser is redevelopment. Therefore, a verification process is essential to ascertain that this is the case.

The cost approach may assist in determining an apportioned land value in improved property sales through a residual analysis, which deducts the value of the existing improvements from the overall sale price. It may also provide evidence concerning the costs associated with obtaining development approvals and servicing costs.

The income approach may assist in determining the feasibility of any income-oriented development. This will treat development and servicing costs as an expense in the process while treating potential income as the pro forma benefit.

## 2.2 Approach

There are three main phases in the process used by MPAC:

- data collection
- analysis of the data collected
- valuation

## 2.3 Data Collection

The data required for lands in transition valuations come from a number of sources:

- MPAC tracks trends in the development industry
- MPAC tracks trends in land use planning

The valuation of lands in transition involves a consideration of the highest and best use of the property. This involves the four tests of highest and best use, which determines the property's physical possibility, legal permissibility or probability, financial feasibility and maximum productivity. While the current use of a property is typically its highest and best use, in areas undergoing intensification, the current use may not be its highest and best use.

Properties should be assessed based on the current permitted uses on the site. For example, land use restrictions and current zoning designations may limit the development potential of industrial land in an employment area. The assessment of such lands should not be based on speculative uses that are not currently permitted. The data required for each step of the analysis is outlined below:

### 1. Physically Possible

- site dimensions

- site location
- soils
- geotechnical issues
- topography proximity to sensitive uses (environmental or social)
- access

## 2. Legally Permissible

- zoning
- official plan
- provincial policy statements, development applications
- re-zoning or official plan amendment applications in the vicinity
- Committee of Adjustment decisions
- Ontario Municipal Board decisions
- environmental condition
- proximity to environmentally protected areas

## 3. Financially Feasible

- cost
- benefit
- risk
- sale transactions

## 4. Produces the Highest Property Value

- yield
- project value

- sale transactions

### **Identification of Lands in Transition**

In 2005, the Ministry of Municipal Affairs and Housing introduced its Places to Grow Initiative, which included growth plans for urban growth centres, transit hubs and intensification corridors. In an effort to identify lands in transition, MPAC focuses on the areas identified in the Places to Grow Initiative. (For more information on Places to Grow, visit [placestogrow.ca](http://placestogrow.ca).)

A number of indicators can help MPAC identify a property as a candidate for redevelopment. These include the following:

- location
- lot size
- large site with low overall density
- proximity to other new developments
- neighbourhood undergoing transition from one type of use to another
- sales on the subject property or neighbouring parcels
- market supply and demand for various uses
- development applications on subject property
- development applications on nearby properties
- development trends
- committee of Adjustment Decisions on minor variance applications
- Ontario Municipal Board decisions on land use planning matters
- Official Plan or Zoning Bylaw amendments relating to specific neighbourhoods or individual sites
- age of structures
- buildings not well maintained

- chronic high vacancy in subject property and/or neighbourhood
- demolition clauses in existing leases
- excessive external obsolescence

In addition to the considerations above, assessors must keep in mind designations included in any official plans that limit the property's development potential. Properties that are within designated neighbourhoods, open space or park lands and employment districts will be limited to the specific uses allowed in the official plan.

### **Confidentiality**

As outlined above, it is important to be aware that, in order to enable MPAC to produce an accurate valuation of the property concerned, information needs to be obtained from a variety of sources.

This will include information from MPAC's records, from the owner or operator of the property, from the municipality in which the property is located, from the assessor's visit to the property, and from other sources.

All stakeholders in the property tax system have an interest in ensuring that the current value provided by MPAC is correct; in order to achieve this, it is necessary for all parties to cooperate in the provision of information.

It is appreciated that some of the information outlined above may be of a commercially sensitive nature. MPAC recognizes the need to ensure that any information provided is properly safeguarded and only used for the purpose for which it is supplied. Assessors appreciate the nature of this undertaking and ensure data is treated accordingly.

If, after an appeal has been filed, MPAC receives a request for the release of actual income and expense information, or other sensitive commercial proprietary information, the usual practice is to require the person seeking the information to bring a motion before the Assessment Review Board (ARB), with notice to the third parties, requesting that the ARB order production of the requested information. The release of such information is at the discretion of the ARB and commonly accompanied by a requirement for confidentiality.

The Assessment Act outlines in Section 53(2) that disclosed information may be released in limited circumstances "(a) to the assessment corporation or any authorized employee of the corporation; or (b) by any person being examined as a witness in an assessment appeal or in a proceeding in court involving an assessment matter."

## **2.4 Data Analysis**

Having carried out the data collection outlined previously, the assessor needs to analyze it and reach a conclusion regarding the appropriate valuation method to use and how it should be applied.

## **2.5 Valuation**

Having undertaken the necessary steps outlined above, the assessor should now be in a position to apply the appropriate valuation model.

## **2.6 Validating the Results**

Once the assessor has completed the valuation, it is necessary to carry out a series of checks to ensure that all relevant parts of the property have been included in the valuation, there has been no double-counting of any adjustments made for depreciation such as functional and external obsolescence, the resulting valuation has been compared with any market evidence that may be available in relation to similar properties and the final valuation is in line with the valuation of other similar properties in Ontario.

## 3.0 The Valuation

### 3.1 Highest and Best Use Definition

The Canadian Uniform Standards of Professional Appraisal Practice lays out the process of determining the highest and best use for lands in transition. The first step in the valuation process for lands in transition is for the assessor to consider a land's highest and best use according to four criteria: legal permissibility, physical possibility, financial feasibility and maximum profitability. Determining the highest and best use provides the valuation context for the assessor to compare against market information.

The highest and best use of a property as vacant is considered separately from the highest and best use as improved. The highest and best use of a site as if it were vacant is used to determine the value of the land in situations where the property's current use does not represent the highest and best use of the site.

The highest and best use for the land considers all reasonable alternatives that will yield the highest land value after payment for labour, capital and co-ordination. It assumes the land is vacant or can be made so by the demolition of any improvements.

### 3.2 Highest and Best Use as Vacant

The first step in determining the potential highest and best use of a property is to consider the value of the land as if it were vacant. To do this, the assessor must understand:

- the current zoning and as-of-right permissions
- the probability of an official plan or zoning by-law amendment
- the value and financial feasibility of the existing use and potential alternative uses
- whether heritage designations may inhibit the demolition or alteration of specific structures or improvement features
- how much consideration should be given for the demolition cost of existing structures
- whether environment contamination may impact development potential

The highest and best use may be existing use, projected development, as subdivision or assemblage or holding as an investment.



### 3.3 Highest and Best Use as Improved

The highest and best use of a property may be a continuation of its existing use, or it may involve:

- renovation or rehabilitation
- expansion
- adaptation/conversion to another use
- partial/total demolition
- a combination of alternatives

Criteria that may indicate that a property's highest and best use is not its existing use may be:

- The use is legal but non-conforming.
- The property has additional development capacity.
- The property is very specialized and affected by either or both functional and external obsolescence.
- The property could also suffer from detrimental factors, such as environmental contamination.

### 3.4 Highest and Best Use – Alternative Use Summary

MPAC's assessor will summarize the alternative uses being considered and indicate the results of the four tests applied on two bases:

- as improved
- as vacant

As well, the assessor will indicate what valuation approaches were used to establish the fourfold test results:

- direct (sales) comparison approach
- cost approach
- income approach

### 3.5 Testing Criteria in Lands in Transition

In a lands in transition analysis, MPAC's assessor first considers the reasonably probable uses of a site that can be legally undertaken or the probability of a change of zoning that would permit alternative development. Four steps are applied to develop support for the assessor's opinion.

As already indicated, the four-part test of highest and best use involves the following:

- physically possible
- legally permissible
- financially feasible
- maximally productive

For example, land use restrictions and current zoning designations may limit the development potential of industrial land in an employment area. The assessment of such lands should not be based on speculative uses that are not currently permitted. Properties should be assessed based on the current permitted uses on the site.

As per the Appraisal Institute text, *The Appraisal of Real Estate*:<sup>3</sup>

- "The tests of physical possibility and legal permissibility can be applied in either order, but they both must be applied before the tests of financial feasibility and maximum productivity.
- A use may be financially feasible, but this is irrelevant if it is legally prohibited or physically impossible.
- Consideration of whether a use is reasonably probable should continue throughout the analysis of highest and best use as the appraiser learns more about the potential use of the property. Reasonable probability is both a tentative starting point and a conclusion for the use or uses that are ultimately deemed probable."

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<sup>3</sup> Appraisal Institute (US) and the Appraisal Institute of Canada, *The Appraisal of Real Estate, Third Canadian Edition* (2010): 12.2–12.3.

### 3.6 Lands in Transition – Vacant

The analysis of lands in transition as though vacant is concluded after the four criteria have been applied and various alternative uses have been eliminated. The remaining use that fulfills all four criteria is the highest and best use.

### 3.7 Legal Permissibility of Land as Though Vacant

Official plans, zoning, building codes, historic controls and environmental regulations may preclude potential uses. MPAC consults with municipalities to ensure a clear understanding of the municipal planning framework.

Building codes may also prevent land from being developed into what would otherwise be its highest and best use by imposing burdensome restrictions that increase the cost of construction. Furthermore, zoning by-laws or other limitations inherent in other applicable codes or regulations will be required to be investigated by the assessor.

The assessor will also consider whether there is a reasonable probability that the zoning or other restrictions could be changed in order for the highest and best use of the property to be realized. Consideration may include lands located in areas where intensification and growth are encouraged in Official Plans and other municipal guidelines as well as support through external market forces.

#### Zoning

The primary elements that must be reviewed in zoning bylaws or regulations are:

- permitted uses
- allowable coverage
- allowable density
- allowable number of units or rooms
- heights
- setbacks
- minimum lot sizes
- minimum frontages

## Re-zoning

The assessor must examine provincial policy statements, official plan policies and designations that apply to the property being assessed. Development is intended to accord with the policies and vision outlined in the official plan (or secondary plan) applicable to the area. In investigating the reasonable probability of a zoning change, trends and the history of zoning requests in the market area must be considered.

Uses that are not compatible with the existing land uses in the area and uses for which zoning changes have been requested but denied in the past can usually be eliminated from consideration as potential highest and best uses.

On the other hand, a zoning change may be reasonable if other properties in the market area have received a similar zoning change recently or if a municipality's official plan designates the property for a use other than its current use.

The probability of re-zoning may be established using the following criteria:

- Site features should be suitable for land use allowed by the proposed re-zoning.
- Proposed re-zoning should be compatible with adjacent land use.
- Proposed re-zoning should conform to the official plan.
- There should be evidence of change in conditions since zoned.
- There is history of similar zoning approval in area.
- The probability of zoning changes also being supported by market demand.

### 3.8 Physical Possibility of Land as Though Vacant

The test of physical possibility addresses the physical characteristics associated with the site that might affect its highest and best use. The size, shape, terrain, and accessibility of land and the risk of natural disasters such as floods or earthquakes affect the uses to which land can be put. The utility of a parcel may also depend on its frontage and depth. Irregularly shaped parcels can cost more to develop and, after development, may have less utility than regularly shaped parcels of the same size.

Ease of access enhances the utility of a site. For certain property uses, visibility is an important feature. For other property uses, the privacy provided by the lack of a view is a benefit. It is also important for the assessor to consider the capacity and availability of public utilities. For

example, if a sewer main located in front of a property cannot be tapped because of a lack of capacity at the sewage disposal plant, the property's use might be limited. When topography or subsoil conditions make development difficult or costly, the land's utility may be adversely affected. If the cost of grading or constructing a foundation on the subject site is higher than is typical for sites in the area competing for the same use, the subject site may be economically infeasible for the highest and best use that would otherwise be indicated.

The primary factors affecting physical possibility are:

- size
- frontage
- lot Dimensions
- shape
- corner/interior lot
- topography
- soils
- geotechnical issues (seismic)
- drainage
- availability of utilities
- access

These physical factors interact with legal permissibility to create potential alternative developments.

In determining which uses are legally permissible and physically possible, the assessor may eliminate some uses from consideration based on market demand and development trends.

### **3.9 Financial Feasibility of Land as Though Vacant**

Only those uses that meet the first two criteria are analyzed further. As long as a potential use has value commensurate with its cost and conforms to the first two tests, the use is financially feasible.

The financial feasibility test requires an examination of market factors relative to various use alternatives examined in the marketability study and market analysis.

### **Marketability Study**

A marketability study is a process that investigates how a particular piece of property will be absorbed, sold or leased under current or anticipated market conditions. It includes a market study, or analysis, of the potential alternative developments being considered.

### **Market Analysis**

Market analysis is a process of examining the demand for and supply of a property type within a given geographic market area.

The market analysis should examine:

- supply (available sites)
- demand (population growth, development applications, sale transactions)

### **3.10 Maximum Productivity of Land as Though Vacant**

The test of maximum productivity is applied to the uses that have passed the first three tests. Of the financially feasible uses, the highest and best use is the use that produces the highest residual land value consistent with the market's acceptance of risk.

MPAC principally uses land sales to test which potential use is maximally productive. Alternatively, a development or land residual pro forma may be utilized where sales are limited or where a unique development potential exists that is not reflected in the land sales within a specific neighbourhood.

The assessor can find the residual land value by estimating the value of the proposed use (land and improvements) and subtracting the cost of the labour, capital and entrepreneurial coordination expended to create the improvements.

### 3.11 Highest and Best Use as Vacant Conclusion

The conclusion of highest and best use analysis should be clearly stated in terms of the following:

- use(s)
- timing for use(s) (i.e., absorption, rents, occupancy, etc.)
- market participants (users and most probable buyers/tenants)

The conclusion of the highest and best use of a parcel of land should be as specific as the assessor's research allows and the assignment requires. Available data might only support general conclusions as to use. General categories such as "office uses," "retail uses" or "industrial uses" may be adequate in some situations, but in others, the particular use may be more specific, such as "retail box store."

Sometimes there is ample vacant land sales evidence available on highly similar sites, so it is unnecessary to refine the highest and best use conclusion. In any case, the assessor needs to provide market evidence that leads to an understanding of the use or uses, the timing for those uses and the probable users and buyers.

The intensity of a use is an important consideration in highest and best use analysis. The present use of a site may not be its highest and best use. The land may be suitable for a much higher, or more intense, use.

## 4.0 Lands in Transition – Improved Property

The analysis of the highest and best use as improved pertains to the use that should be made of an improved property in light of the existing improvements and the ideal improvement described at the conclusion of the analysis of lands in transition as though vacant. With any improved property, there are three possibilities that must be considered:

- Continue the existing use.
- Demolish the existing improvements and redevelop the site.
- Modify the existing use.

A key test of the lands in transition analysis is a comparison of the value of a site as vacant and as improved. If the value as vacant is higher than that as improved, this may indicate the following:

- The highest value may not be derived from the current use.
- There may be additional development potential.

Lands in transition analysis of a property “as improved” considers not just the existing use and configuration but can also include consideration of “renovation or rehabilitation, expansion, adaptation or conversion to another use, partial or total demolition, or some combination of these alternatives...if capital expenditures are required, rates of return for each potential use must be calculated, considering the total investment in the property and all capital expenditures. These rates of return can then be compared with rates of return for other similar types of investments to determine whether the potential uses are financially feasible.”<sup>4</sup>

### The Ideal Improvement

As part of the analysis of highest and best use as improved, the assessor examines the current building improvements relative to the type and characteristics of the ideal replacement improvement, which would meet the following criteria:

- takes advantage of the property’s highest potential market demand
- conforms to the character and standards of the market area
- includes the most suitably priced components

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<sup>4</sup> *The Appraisal of Real Estate*, 12.11–12.12.



#### **4.1 Continuation of the Existing Use as Improved**

The existing use of a property as improved is usually legally permissible and physically possible. If the existing use will remain financially feasible and is more profitable than modification or redevelopment, the existing use will remain the highest and best use of the property as improved.

The assessor may need to address deferred maintenance in the analysis of the financial feasibility of the existing use. The property may require repairs for the existing improvements to achieve the best competitive position in the marketplace. The costs of curing physical deterioration or functional obsolescence, redesigning a building, or converting the existing improvements into an alternative use (including a provision for profit) must be analyzed in light of the value created in the market. The effect of the changes on value is more important than simply how much the changes will cost. If the changes will not be economically feasible, the expenditures would not be made.

#### **4.2 Modification of the Existing Use as Improved**

Modification of existing improvements must meet all four tests of highest and best use. The study of property productivity in the market analysis process is likely to show what changes to the existing use are physically possible and legally permissible. Determining the financially feasible modification that is more profitable than either the existing use or any other modifications is a matter of weighing the costs of modification and the benefit to the property (e.g., an adequate increase in rent as a result of the modification).

#### **4.3 Demolition as Improved and Redevelopment**

Demolition can be considered the most extreme form of modification of the existing use of a property as improved. When an alternative use of a site is legally permissible, physically possible, financially feasible, and more profitable (less the cost of demolition and redevelopment of the site) than the continuing use of the existing improvements, then the alternative use will be the highest and best use of the property as improved.

#### **4.4 Excess Land/Additional Development Rights**

A given land use has an optimum parcel size, configuration and land-to-building ratio. Any extra or remaining land not needed to support the specific use may have a different value than the land area needed to support the improvement. The portion of the property that represents an optimal site for the existing improvements will reflect a typical land-to-building ratio.

The assessor will identify and quantify the land area needed to support the existing or ideal improvement. Any remaining land area is either excess land or surplus land.

Excess land is land that is not needed to serve or support the existing or proposed improvement. The value of the excess land may or may not be the same as the value of the improved parcel. Excess land may have the potential to be severed and sold separately and therefore would be valued separately.

Surplus land is not currently needed to support the existing improvement, but it cannot be severed or separated from the property and sold off. Surplus land does not have an independent market value and may or may not contribute value to the improved parcel.

#### **4.5 Lands in Transition as Improved Conclusion**

A fundamental indicator of a situation where a property may not be at its highest and best use would occur if the value as though vacant were higher than as improved. This may also occur because the improvements are not built to the full extent allowed by the development envelope defined by the physical characteristics of the site and the legal and planning regulations defined in the zoning by-laws. The existence of unused development capacity may not be the only factor affecting the value, because the improvements could be outdated or inappropriate in the economic sense.

#### **4.6 Conclusion**

This guide sets out how MPAC assessors approach the valuation of lands in transition for property assessment purposes, including the identification of lands in transition and the steps involved in the analysis of highest and best use.

For further information about MPAC's role, please visit [mpac.ca](http://mpac.ca).