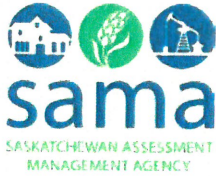


# Appendix G



# Market Value Assessment in Saskatchewan Handbook

# Depreciation Analysis Guide

Date: June 27, 2012

*Market Value Assessment in Saskatchewan Handbook  
Depreciation Analysis Guide*

## 2) Age-Life Method

The age-life method is also known as the straight-line depreciation approach. “A life expectancy is estimated and a constant annual percentage (equal wear or serviceability each year) is taken for depreciation so that at the end of that life the depreciation equals 100% of the initial cost.”<sup>11</sup> For example, if a building has a life expectancy of 50 years, applying physical depreciation on a straight-line basis means a deduction of 2% per annum ( $100\% \div 50 \text{ years} = 2\% \text{ per year}$ ).

For mass appraisal purposes, depreciation is usually estimated through the use of age-life depreciation tables with the addition of condition rating indicators. To apply this method of estimating depreciation the assessor typically reviews the condition of the property as a whole, determines its effective age and given the expectation of typical maintenance, determines the physical life expectancy of the buildings.

The depreciation inherent in a building is either below average or above average condition can be determined by adjusting the effective age of the improvement, upward or downward from the physical age, as required.

### Calculating Effective Age

Determining the effective year built, or effective age of an entire property is mostly an arithmetic exercise. To determine the effective year built of a group of building sections forming an integrated property (i.e. a commercial warehouse built in four construction phases), a weighted average method is recommended. The calculation of such a weighted average is shown in *Figure 2*. It is assumed that all buildings receive average maintenance.

To establish the age of a property, there are two common weighting methods:

- By size, or
- By value.

**Figure 2: Analysis of the Effective Physical Age – SK Manufacturing\***

Building	Area (ft <sup>2</sup> )	RCN	Year Built	Weighted Age by RCN Value	Weighted Age by Area
Assembly Plant	12,440	\$634,440	1963	933.2	924.5
Office	2,855	\$171,300	1964	252.1	212.3
Warehouse	7,000	\$294,000	1970	434.0	522.1
Whs Addition	4,120	\$234,840	1986	349.5	309.8
<b>Totals</b>	<b>26,415</b>	<b>\$1,334,580</b>		<b>1968.8</b>	<b>1968.7</b>

\* (Refer to Figure 1 for a detailed explanation of the hypothetical “SK Manufacturing” example property.)

<sup>11</sup> *Marshall Valuation Service*, (Marshall & Swift/Boeckh, LLC, 2009, Section 97, p.1)