

Appendix 16

From: Vanessa Vaughan [<mailto:vanessa.vaughan@sama.sk.ca>]
Sent: Wednesday, June 11, 2014 8:58 AM
To: Ryan Simpson
Subject: RE: Effective Year

Hello Ryan,

The effective year built uses all commercial building sections in the calculation. The equation is as follows:

Weighted average based on the RCN: $EYB = \frac{\text{SUM}(\text{Year Section Built} * \text{Section RCN})}{\text{SUM}(\text{Section RCN})}$

Vanessa Vaughan, LAAS, MAAS, RES

Senior Market/Commercial Appraiser

Revaluation Unit - Income

Saskatchewan Assessment Management Agency

Ph: (306)924-6650

1-866-828-2133

Email: vanessa.vaughan@sama.sk.ca

From: Ryan Simpson [<mailto:ryan.simpson@altusgroup.com>]
Sent: June-06-14 9:11 AM
To: Vanessa Vaughan
Subject: Effective Year

Hi Vanessa,

How are you?

Would it be possible to describe how Sama comes to derive the effective year of a property? Is it based off the IAAO method as shown in their ratio studies?

Kind regards,

Ryan Simpson
Analyst
Property Tax
Altus Group Limited

D: 306.337.2176

T: 306.522.5628 ext 2676

M: 306.530.4847

F: 306.359.0674

311 Albert Street
Regina, Saskatchewan S4R 2N6 Canada

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Weighted Age Calculations Examples (Figure 2)

- To calculate the Weighted Age by RCN Value:

$$\text{RCN} \div \text{Total RCN} \times \text{Year Built}$$

i.e. Assembly plant: $(\$634,440 \div \$1,334,580) \times 1963 = 933.2$

- To calculate the Weighted Age by Area:

$$\text{Area} \div \text{Total Area} \times \text{Year Built}$$

i.e. Assembly plant: $(12,440 \text{ s.f.} \div 26,415 \text{ s.f.}) \times 1963 = 924.5$

In the example of SK Manufacturing, the average physical age of the entire group of improvements weighted by size is 1968.6, rounded to 1969. The weighted average age based on value was 1968.7, rounded to 1969.

Applying Physical Depreciation

Apart from the *Marshall Valuation Service*, most commercial cost publications do not include depreciation tables. Generally, when depreciation tables are found in cost publications they are not based on the physical life of the improvements but on their expected economic life.

The longevity of improvements will depend on use, construction materials, maintenance and climatic conditions. The physical life expectancy of items that are periodically replaced such as roofing, plumbing elements, and heating components, are generally known. However, there is no completely reliable or consistent source of information on the physical life expectancy of long-lived components such as framing, foundations, etc.

The assessment process relies upon the economic age-life depreciation tables that incorporate normal physical depreciation based on age. Analysis of physical deterioration is typically established based on the observed condition and effective age of the property.

Economic Age-Life Analysis

Economic life is different from physical life with respect to a building or structure. Economic life means the period during which a given building or structure is expected to contribute (positively) to the value of the total property. This period is typically shorter than the period during which the improvement could be left on the property, that is, its physical life.

The analysis of economic life concentrates on utility and market considerations. It is a better reflection of depreciation due to market influences than the analysis of physical age. The remaining economic life of an improvement is determined in the market place. In valuing a property where elements of the improvements have lost their economic value due to a deficiency, two different considerations arise.

- 1) Is the deficiency curable, and curable at a reasonable cost?
- 2) Has the highest and best use of the property changed?