



Appraisal Institute of Canada  

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Institut canadien des évaluateurs

[www.AICanada.ca](http://www.AICanada.ca)

ADVANCING  
THE APPRAISAL  
PROFESSION  
FOR 75 YEARS

**75**  
YEARS ANS

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# Understanding the Fundamentals of Real Estate Valuation in Social Housing

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# Appraisal Institute of Canada

- Founded in 1938, the AIC is the premier real property valuation association in Canada
- AIC is a self-regulating professional organization with over 5,200 members across the country
- In some jurisdictions (Alberta, Nova Scotia and New Brunswick), appraisers must be licensed under their respective Real Estate Council

# Appraisal Institute of Canada

## Accreditation

- *Accredited Appraiser Canadian Institute - AACI™*
- *Canadian Residential Appraiser – CRA™*

**AACI™** : Property types can include but are not limited to: residential, commercial, industrial, institutional, agricultural, land, special use.

**CRA™** : Property types include residential dwellings containing not more than four (4) self-contained family housing units or an individual undeveloped residential dwelling site.

# Having a Qualified AIC Professional on Your Team of Experts

## Value-Add of an AIC-Designated Appraiser

Independent, unbiased, informed, and professional opinion on the quality, value, or utility of a specific property.

Highly qualified professionals trained to complete appraisal, appraisal review, consulting, reserve fund studies, appraisal of machinery & equipment for many types of real property including, but not limited to:

- residential dwellings
- multifamily properties
- co-op properties
- seniors housing
- special purpose properties
- vacant land, excess land
- land for (re)development
- leased land
- new constructions
- property conversions / redevelopment

# Having a Qualified AIC Professional on Your Team of Experts

## Experts in Their Field

- Feasibility studies
- Cost-benefit studies
- Market analysis
- Market rent studies
- Reserve fund studies
- Tax assessment appeals
- Default management
- Asset/portfolio management
- Arbitration, mediation, negotiation
- Expert testimony, litigation support
- Due diligence and best practice

# Having a Qualified AIC Professional on Your Team of Experts

## Whatever your needs

- Acquisition, disposition, renovation, retrofit
- Financing, refinancing, new construction
- Assisting in real estate investment decisions
- Current, retrospective, prospective, an update
- Real property insurance claim
- Assessing the value of impaired or special purpose properties

... and much more

# Hiring an AIC Designated Appraiser

## Key Things to Consider

**Terms of Reference** of the appraisal assignment should be in writing and agreed to by the parties prior to the assignment, to avoid any misunderstanding or additional work to amend the valuation report.

Refer to the Industry Guide on the Understanding the Fundamentals of Real Estate Valuation for key elements to include and consider in the Terms of Reference.

<http://www.aicanada.ca/industry-resources/consumer-guides/industry-guide/>

# Hiring an AIC Designated Appraiser

## Key Things to Consider

1. *Ask the appraiser for their professional designation.*

*Be sure the appraiser is a member of strong professional association such as the Appraisal Institute of Canada.*

*Go to [AICanada.ca](http://AICanada.ca) to “Find an appraiser”*

2. *Ask the professional appraiser about his/her qualifications  
AIC designated member holds either the **AACI** or **CRA**  
designation.*
3. *Ask the professional appraiser about his/her competence,  
experience and expertise in the valuation of your type of property.*
4. *Ask for and verify references!*

# Understanding the Valuation Process

**Scope of Work:** The specific tasks and items necessary to complete the assignment

- Due diligence undertaken by the appraiser
- Necessary research to complete the assignment
- The process of collecting, confirming and reporting data and its analysis
- Type of information needed from the client
- Description of relevant procedures and valuation methodologies
- Any client instructions that may put limitations on the research and the analysis and require special assumptions

# Understanding the Valuation Process

## Local Government

- Zoning - establishing pre-zoned land for development and higher density transit corridors
- Housing-friendly regulatory environment – such as allowing secondary suites and promoting increased density
- Regional Growth Strategies and Community Plans that encourage affordable units
- Targetted reductions for Development Cost Charges and permitting fees
- Property Tax incentives

Source: <http://www.housing.gov.bc.ca/MarketHousing>

# Understanding the Valuation Process

## Provincial Government

- Stewardship of the building code, creating efficiencies that make it easier for communities to approve options such as secondary suites
- Uniform technical standards that simplify Building Code compliance.
- Streamlined regulatory environment for provincial approvals.
- Targetted rent supplements to keep the cost of private market rentals affordable for low to moderate income working families
- Effective regulation of real estate development and marketing, home warranty insurance, and landlord-tenant relations to protect buyers and renters
- Public transit investments
- Financial Assistance, such as the [First Time Homebuyers Bonus](#), [Home Owner Grants](#) and the [Seniors Home Renovation Tax Credit](#).

Source: <http://www.housing.gov.bc.ca/MarketHousing>

# Understanding the Valuation Process

## Federal Government

- Mortgage insurance to assist homeowners with lower down payments
- Financial support and tax incentives for purpose-built rentals and entry level home ownership

Source: <http://www.housing.gov.bc.ca/MarketHousing>

# Mitigating The Risks: The Value of an Appraisal Report



# Defining the Risks

- Financial Risk: risk related to the access to, the cost and use of debt to finance an investment (the property),
  - e.g. default, prepayment, the borrower may not be able to fulfil their financial obligations if the rates change
  - Influenced by the type and amount of debt; performance of the property and the stability of the cash flow
  
- Capital Market Risk: risk that the market value of the property will be affected by the overall return of competing investments – whether the real estate is seen as a comparable, superior or inferior investment
  - Influenced by changes in interest rates and competing investments

# Defining the Risks

- Environmental Risk: risk that the market value of the property will be affected by its physical environment
  - Influenced by perceived health hazards, costs associated with remediation, acts by mother nature
  - Critical for redevelopment sites
  
- Legislative Risk: risk that legal factors will affect the market value of a property
  - Influenced by change in land use regulations (zoning), building code, environmental changes, tax law changes, assessment
  
- Management Risk: risk that the management cannot ensure that the property meets defined goals
  - Influenced by the competence of management (property owner, property manager, on-site management, corporate management and property type)

# Defining the Risks

- Market Risk: risk that changes in the market will change the market value, market rent, net operating income
  - Influenced by the type and location of the property
- Liquidity Risk: difficulty in converting a real estate into cash at market value in a reasonable amount of time
- Marketability Risk: how the property is positioned in the marketplace in relation to competing properties

# Understanding the Valuation Process

## Zoning and Land Use Controls

- zoning regulates building size, density and the way land is used
- analyze the effect of land use controls on the use and value of the site
- consider the effect of any probable modifications due to changes in regulations (i.e. at the municipal, provincial and/or federal levels) – amendments to plans, possibility for zoning changes
  
- Modifications to Zoning and Land Uses may:
  - impact the Highest and Best Use analysis
  - influence the scope of the work and the level of research and analysis
  - influence the value provided or required

# Understanding the Valuation Process

## Zoning and Land Use Controls

In some instances Zoning and Land Use Controls set:

- parking requirements (i.e., number of parking spaces for a particular type of property in a particular area)
- road access restrictions or requirements for specific uses
- the distance between the building and the lot line (aka set backs)
- maximum number of outbuildings
- the required open space for residential uses on the lot
- the maximum amount of building coverage on the lot
  - e.g., land-to-building ratio - building size must be 25-50% of the lot size.

# Understanding the Valuation Process

**Highest and Best Use:** The report must contain the appraiser's opinion as to the highest and best use of the property being appraised.

## ***Definitions:***

“The reasonable and probable use that supports the highest value, as defined, as of the effective date of the appraisal”.

“That use which is likely to produce the greatest net return over a period of time”.

# Understanding the Valuation Process

As land is usually appraised *as though vacant and available for development* to its highest and best use, the appraiser must provide opinions as to the highest and best use of:

- the land, as if vacant, and;
- the property, if improved.

The highest and best use of both land as though vacant and property as improved must meet four criteria. The highest and best use must be:

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

The appraiser's reasoning in support of the opinion must be based on the relevant legal, physical and economic factors.

# Collateral Risk

## New Construction

- Does the value by the Cost Approach align with the value by the Direct Comparison Approach or is it significantly superior? What's the impact of the value difference?
- Feasibility analysis, highest and best use analysis, market analysis, discounted cash flow



# Collateral Risk

## Special Considerations

### Interim or Holding Use

- Properties with redevelopment potential
- Properties nearing the end of their physical or economic life (may need to be demolished and rebuilt)
- Underdeveloped property but the market conditions are not favorable for redevelopment
- Revitalization of downtown core
- Urbanization of sub-urban areas
- Excess Land



# Understanding the Valuation Process

- Physical characteristics - interior/exterior finishes - of the building and outbuildings
- Important features such as original date of construction, dates of any major additions or renovations, extra features; quality of the improvements (i.e. poor, average, good, excellent)
- Equipment and mechanical systems (i.e., access ramps; electrical, plumbing, heating and cooling systems)

***The inspection is one of many tasks performed by the appraiser.***

# Understanding the Valuation Process

- Different types of units, their size and functionality of their layouts (i.e., adapted units; 1, 2 or 3 bedroom units)
- Elements of depreciation from any deficiencies or required repairs
  - ***physical depreciation***: wear and tear from regular use
  - ***functional depreciation***: structural flaws that diminish function, utility and value of the improvement
  - ***external depreciation***: impairments due to influences outside the property

Depreciation affects value - consider the cost to cure, especially with older structures

# Understanding the Valuation Process

- Most of the valuation process occurs after the inspection. The inspection allows the appraiser to gather sufficient information to properly describe the property and compare it to similar properties in the subject marketplace.
- Estimating the market value of any property requires the appraiser ***to complete a thorough analysis of the market conditions and factors that influence property values***
  - population and demographic
  - economic forces such as supply and demand
  - local zoning, provincial and/or national building codes
  - national and provincial taxation policies
  - rent controls
  - building restrictions and land use controls, to name a few

# Understanding the Valuation Process

## *DEFINING THE VALUE*

When appraising proposed improvements, examine and have available for future examination:

- plans, specifications, or other documents sufficient to identify the scope and character of the proposed improvements
- evidence indicating the probable time of completion of the proposed improvements
- past or estimated financial statements
- reasonably clear and appropriate evidence supporting development costs, anticipated earnings, occupancy projections, and the anticipated competition at the time of completion

# Understanding the Valuation Process

## *DIRECT COMPARISON APPROACH*

When the Direct Comparison Approach is applicable, the appraiser develops an opinion of value by analyzing closed sales, listings or pending sales of properties that are similar to the subject property.

Estimates of market rent, lease rates, operating expenses, land value, cost to cure, accrued depreciation and other value parameters may be derived using a comparative technique.

# Understanding the Valuation Process

COMPARATIVE ANALYSIS GRID

Subject		Comparable No. 1		Comparable No. 2		Comparable No. 3	
		Description	Adjustment	Description	Adjustment	Description	Adjustment
Data Source							
Date of Sale							
Sale Price							
Days on Market							
Location		similar		inferior	+\$	superior	-\$
Site Size							
Building Type							
Design/Style							
Age/Condition							
Liveable Floor Area							
Room Count							
Basement							
Parking							
Other							
Adjustments (Gross %, Net %, Dollar)							
Adjusted Values							

# Understanding the Valuation Process

**Step 1: Estimate the value of the site as through vacant**

**Step 2: Depreciated Cost of the Improvements**

- ***Estimate the cost new of the improvements***  
(i.e. building, garage, outbuilding) **using comparable data**  
+)
- ***Estimate an appropriate entrepreneurial profit***  
(or incentive from the market)  
(+)
- ***Estimate the contributory value of any site improvements***  
(i.e. landscaping, other site improvements) that have not been  
considered  
(-)
- ***Estimate the accrued depreciation in the subject***  
(all physical, functional and external elements of depreciation)

**Step 3: Estimated Value of the Site as Though Vacant (Step 1)  
+ Depreciated Costs of Improvements (Step 2)  
Value by the Cost Approach**

# Understanding the Valuation Process

**Market Housing** is privately owned – with rents established by the market.

- market rent is the “most probable rent that a property should bring in a competitive and open market reflecting all conditions and restrictions of typical lease agreement .... “.

**Non-Market Housing** is owned by an organization - a government, non-profit, or co-operative - rather than an individual or private company.

- rents are not set by the market. Generally, to be eligible, an applicant’s income must be below certain limits.

# Understanding the Valuation Process

## *INCOME APPROACH*

The earning potential of an income-producing property is an important element affecting the value.

In estimating the market value of an income-producing property, the appraiser:

- analyzes the income and expenses of the comparable rental properties to estimate the income and expenses of the subject property
- converts the subject's net income into a present value.

Note: In the case of non-market or mixed (market, non-market) housing properties, this may mean deriving 2 estimates of value to assess the impact on the income stream (income, vacancy, operating expenses, strength of the net income)

# Understanding the Valuation Process

## Gross Income

Actual rents (also look at economic rents)

(+) Laundry

(+) Parking rents

(+) Other leasing arrangements (air, ground, below ground, water)

(-) Vacancy allowance **for each income stream**

= Effective Gross Income (EGI)

## Less Expenses

- Property taxes
- Heat, Hydro, Water
- Repairs and Maintenance
- Property Management
- Reserve (for repairs)

**Net Operating Income: EGI – Total Expenses**

**Value (Income Approach) = Net Operating Income  
Capitalization Rate (%)**

# Understanding the Valuation Process

## What the Appraisal Does Not Include

### ***BEYOND THE APPRAISER'S SCOPE OF EXPERTISE - COMPETENCE***

- **Environmental Assessment:** Full compliance with applicable environmental regulations and laws is assumed unless otherwise stated, defined and considered in a report.
  - Onus is on Intended User to satisfy themselves that property is free and clear of environmental impairments , hazards, pollutants or other toxic substances.
  
- **Technical or Engineering Expertise:** No legal survey, engineering reports, soil analysis, geological studies, or chemical hazard inspections have been ordered or made in conjunction within a report.
  - Onus is on Intended User to obtain cost estimates for any remediation.

For more information on understanding the appraisal process contact the Appraisal Institute of Canada at:

[info@aicanada.ca](mailto:info@aicanada.ca)

or find an appraiser in your area by visiting the AIC website at [www.AICanada.ca](http://www.AICanada.ca).

**Thank you!**



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