

# PROPERTY ASSESSMENT APPEAL BOARD

## COMMERCIAL PROPERTY APPEAL GUIDE

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## Introduction

You have filed an appeal of a commercial or industrial property with the Property Assessment Appeal Board. This Guide will help you understand the common appeal issues for commercial properties and the general techniques for valuing a property.

### PLEASE BE AWARE:

- Given that estimating the value of a commercial property is usually complicated, this Guide does not cover all the steps in complete detail. This Guide is not intended to give you legal or appraisal advice.
- Some steps are quite technical and require specialized knowledge and skills. Many owners hire a trained specialist, such as an appraiser. It is completely your decision whether you hire a specialist to assist you.

## Other Resources:

See the [Frequently Asked Questions \(FAQs\)](#) for information on:

- Filing your appeal
- First steps and ways of settling your appeal
- Next steps if the appeal is not settled

## Common Appeal Issues:

This section summarizes the following common issues:

- My assessment is not at market value.
- The description of the property is wrong.
- My assessment is not equitable (or fair) compared with the assessments of similar properties.
- My property is not in the correct class.

Also see the [Frequently Asked Questions \(FAQs\)](#) for “What can I appeal and what can I not appeal?”

### **My Assessment is not at Market Value:**

Your property should be assessed at its market value as of July 1<sup>st</sup> of the previous year (for example: July 1, 2018 for the 2019 assessment).

If you believe your assessment is either too high or too low, you should estimate its market value using accepted appraisal techniques. For valuing a commercial property you must take these steps:

1. Determine the highest and best use for the property.
2. Estimate its value using one or more of these techniques:
  - Income Approach
  - Direct Comparison Approach
  - Cost Approach

See the below sections of this Guide for more information on these steps.

## **The description of the property is wrong**

Sometimes property owners are concerned that their assessment is based on the wrong land or building sizes or condition. If you think BC Assessment's description of your property is wrong, you should contact the [local BC Assessment office](#) to discuss your concerns and ask for a copy of the Property Value Summary.

Attached to this Guide is an example of a Property Value Summary which shows the details of your property in BC Assessment's system and brief explanation on how the property is assessed.

### Land size:

If you and BC Assessment disagree on the land size, you should look for documents to confirm the correct area, such as:

- site survey done by a surveyor
- land survey from Land Titles or the taxing jurisdiction. The taxing jurisdiction is either the City, Municipality or District that sends you property tax notices.

### Building areas or gross leasable areas:

If you and BC Assessment disagree on the building area, you should look for documents such as:

- building plans from the building permit application (on file with taxing jurisdiction)
- building survey done by a surveyor.

<i>Note:</i> Gross leasable area is the total floor area for tenants to occupy and exclusively use.
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## **My assessment is not equitable (or fair) compared with the assessments of other similar properties.**

The Courts have interpreted equity to mean that your assessment should be set at the lower of either market value or an "equitable value". Equitable value means if other similar properties are assessed below market value (on average), then your property is entitled to a similar level of assessment.

For example, you may agree that your property's market value is \$500,000. However, you have determined that similar commercial properties throughout your area are, on average, assessed at only 80% of their market value. In other words, these other properties are 20% under assessed. To be equitable, your property should also be assessed at 80% of its \$500,000 market value, or \$400,000.

Equity appeals are complicated because you must look at both the assessments and market values of similar properties. Often, you do not know the market values unless these properties have sold. Usually, it is not enough to pick one or two other properties because equity requires evidence of a more wide-spread unfairness in assessments.

A successful equity argument requires:

- a. Defining which properties are similar to yours. For example: should your property be compared to the entire municipality or to a smaller group of properties?
- b. Showing these other properties are assessed significantly below their market values (typically more than a few percent), whereas your property's assessment is at its market value.

For more information, see the [equity section of the Single Family Residential Guide](#). The basic steps are the same for commercial properties.

You will likely not be successful if you are just arguing that one input or aspect of your valuation is different from other property assessments. For example, saying BC Assessment used a capitalization rate of 4% on your property and 4.5% on other properties. Equity compares the total assessment (after applying all the elements of valuation). Therefore, the Board would likely not change your assessment based on this argument.

### **My property is not in the correct class:**

Classification is based on the actual use of the property as at October 31 in the previous year (e.g. October 31, 2018 for the 2019 assessment).

The [Prescribed Classes of Property Regulation](#) establishes nine property classes:

- Class 1 — residential
- Class 2 — utilities
- Class 3 — supportive housing
- Class 4 — major industry
- Class 5 — light industry
- Class 6 — business and other
- Class 7 — managed forest land
- Class 8 — recreational property/non-profit organization
- Class 9 — farm

Most properties appealed to the Board are either Class 1 - residential or Class 6 - business and other.

Class 1 includes property "used for residential purposes". Class 1 also includes land with no present use that is not zoned specifically nor held for business, commercial or industrial purposes. Hotels and motels are generally excluded from Class 1.

Class 6 is a “catch all” category for properties not included in one of the other eight classes. If a property can fit within another class it must be put in that class and not in Class 6. In practice, most office, retail and warehouse properties are in Class 6.

Properties that have different uses can have multiple classes, often called “split classification”. For example, if the property has retail on the ground floor and two levels of residential rental units, the property would be split between Class 6 and Class 1.

## What documents do I need?

Depending on your appeal issue, the following documents will assist you in valuing your property. They will also help you discuss your concerns with BC Assessment and the Property Assessment Appeal Board.

Please see [Practice Directive No. 2 –Disclosure Expectations in the Management of Commercial Appeals](#) that sets out what documents are expected to be produced by the parties in commercial appeals.

### Property Valuation Summary

The Property Valuation Summary is a description of the property’s physical inventory and shows how BC Assessment valued the property for the assessment.

*Where to go:*

- [Local BC Assessment office](#)

### Zoning Bylaw

The zoning bylaw will identify what types of uses are allowed on a property, the density, building height and required parking. Find out what the zoning is for the property and review the bylaw.

*Where to go:*

- Planning Department at your taxing jurisdiction

### Official Community Plan (OCP)

The OCP is a comprehensive plan that includes details on transportation, utilities, land use, recreation and housing. The future use of your property may be different from the current use and this may affect the highest and best use and the market value of your property.

*Where go:*

- Taxing jurisdiction (usually available on-line)

### Site plan / Survey

A site plan or a land survey details the dimensions of the property.

*Where to go:*

- Land Titles Office
- Taxing jurisdiction
- Surveyor (hired privately)

## **Building plans**

Building plans or a survey can provide the correct building area.

*Where to go:*

- Taxing jurisdiction (Building Department - from building permit drawings)
- In your files

## **Rent Roll (lease particulars)**

If your property is rented, the rent you charge your tenants may be relevant for the value of the property. BC Assessment may ask you for details on the leases. These details are often provided in a document called the rent roll.

*Where to go:*

- In your files

## **Income and Expense Statement**

If your property is rented, the income and expenses may be relevant for the value of your property. BC Assessment may ask for the income and expense statement for the property.

*Where to go:*

- In your files

## **Environmental Study**

Contamination of a property can affect its market value. In order to have this considered, you need to provide an environmental review, which starts with a Phase 1 assessment. This is a visual inspection and review of the historical uses on the property. A Phase 1 assessment may not provide enough evidence of the extent of contamination and the costs to remedy the contamination. You may require a more detailed Phase 2 assessment.

*Where to go:*

- Environmental Consultant

## **Contractor Quotes for Repair**

If your building needs repairs, you will need to provide the following:

- Some evidence of the condition or damage (such as photographs)
- An estimate from a contractor for the repairs.

*Remember:* Your assessment is based on the condition of your property on October 31 of the previous year (for example: October 31, 2018 for your 2019 assessment).

*Where to go:*

- Demonstrate with your own documents
- Independent contractor

## How to estimate the market value of my property?

The below sections will help you understand how to estimate the market value of your commercial property. These steps can be complicated. You may need the assistance of a professional such as an appraiser. It is completely your decision whether or not you seek professional assistance.

There are three main steps:

1. Determine the highest and best use for your property;
2. Estimate the market value using one or more of these methods:
  - Income Approach
  - Direct Comparison Approach
  - Cost Approach
3. Conclude your estimate of the market value.

### Hints on valuing your property:

- The assessment should be at your property's market value as of July 1 the previous year (for example: July 1, 2018 for the 2019 assessment).
- Your assessment should also be based on the property's use and condition as of October 31<sup>st</sup> of the previous year (For example: October 31, 2018 for the 2019 assessment).
- If you are not sure which valuation methods to use, you could find out what methods BC Assessment used. Ask your local BC Assessment office for the property valuation summary for your property or talk to the BC Assessment appraiser. *Please note:* You do not have to agree with BC Assessment and can argue that different valuation methods are more appropriate.
- The Board must consider the total property value. You may disagree with individual inputs, such as a rental rate, but this is not sufficient for an appeal. You must calculate the market value of the whole property.
- Your assessed value should include all the interests in the property. This is called the fee simple value. The assessment should include the value of both the tenant and the landlord's interests. Therefore, the sale of a leasehold interest is not considered sufficient market support for determining a property's assessed value.

## Highest and Best Use

The first step in estimating the value of your property is to determine the highest and best use.

### What is the highest and best use?

*Ask yourself:* Who would likely buy your property? What would they do with it?

The highest and best use of the property may not be its current use. Neighbourhoods change, and the demand for certain types of land and buildings may also change.

**Highest and best use** is “the reasonably probable and legal use of vacant land or an improved property that is physically possible, appropriately supported, and financially feasible and that results in the highest value.” (*Appraisal of Real Estate - Third Canadian Edition* p.12.1).

*Examples when the highest and best use might be different than the current use:*

1. A two-storey office building may not be the best use of a property near a new rapid transit station that has been rezoned for high-rise mixed use.
2. Land that used to be a gas station may now be better suited for assembly to develop a new shopping plaza.

**KEY:** The highest and best use is the use that generates the highest value for the property. Market value (and your assessment) should be based on a property’s highest and best use.

You need to analyze the highest and best use when you have a vacant or an improved property (a property with buildings on it).

If the property already has improvements, the highest and best use can be:

1. Keep what is there now:
  - The value is based on the existing buildings.
2. Modify what is there:
  - Repair, renovate or expand the existing buildings.
3. Redevelop the property:
  - The current buildings have outlived their usefulness and the property is worth more without them.
  - Tear down the existing improvements and redevelop. (For example, an older single-family house on a commercial strip. The property is zoned high-density commercial. The house does not add value except perhaps as *interim use* while permits are obtained to redevelop.)

*Interim use* is what the property can be used for until it is ready for a different use in the future. For example: the existing buildings could be rented until redevelopment takes place.



Your land may have a high assessed value, but your building could have a low assessed value. This may be because BC Assessment believes that the current improvements are not the highest and best use of the property. When your improvement value is larger, this indicates that BC Assessment considers the current use of the property to be its highest and best use.

## **How do I analyze the highest and best use?**

To complete a highest and best use analysis, you must ask four questions, in the following order:

### **1. What are you allowed to build? ( “legally permissible”)**

- a. Look up the zoning to see what you are legally allowed to build
- b. Review the Official Community Plan to see the municipality’s future plans for the property and the neighbourhood.

### **2. What are you able to build, physically?**

- a. Consider the soil conditions and topography
- b. Consider how you access the property
- c. Look at existing services to the property and what services are needed
- d. Research if there are any restrictions in the size, height, density, placement of buildings
- e. See whether there will be sufficient parking on the property with any redevelopment
- f. Is the property big enough to redevelop on its own? Or, does it need assembly with neighbouring properties?

### **3. Which of these legal and physically possible uses are economical, or financially feasible?** Analyze which of these uses are profitable.

### **4. Of those financially feasible uses, which results in the highest value?** Look at which use is the most profitable.

After completing this analysis, you can now estimate the value of your properties based on your conclusion on what is the highest and best use.

## **Estimating value using the Income Approach**

### **What is the income approach?**

The income approach to value a commercial property is based on the income it can generate. If you are appealing a property that could produce income from rent, BC Assessment may have valued it using the income approach.

In the income approach, you analyze the *future* income potential of the property and capitalize that income into a value.

## What are the steps in the income approach?

### 1. Determine the economic rents

Actual value is based on economic rents. Economic rent is affected by many different factors, including the age and condition of the space, accessibility, parking availability, amenities, views, operating costs, management, and market conditions. The economic rent may not necessarily be the actual rents you are receiving for the property.

Consider the following questions:

- What rents are you receiving? Check if they are net or gross.

**Net lease:** a lease where the tenant pays for their share of the costs to operate the building and their share of the property taxes, on top of their base rent

**Gross lease:** a lease where the rent paid includes everything, and the tenant does not pay additionally for operating costs and property taxes.

- Were there any new leases or lease renewals in the past year? Usually recent leases will be more reliable indicators of economic rent (as of the valuation date for the assessment) than older leases.
- If the building had vacant space, what could you have charged for rent around July 1 of the previous year (for example: July 1, 2018 for the 2019 assessment)?
- What are similar properties charging for rent? Are there any leases in competing buildings that were listed for lease recently?
- Does the property have unusual advantages or benefits that may allow higher rents to be achieved? *Example:* views, extra parking, proximity to transit.
- Are there any negative issues that affect the ability to lease the building or the rents you can charge? *Example:* a two-storey commercial building that does not have elevator access will be more difficult to lease.

### 2. Apply other allowances

You also need to determine:

- The vacancy allowance
- The expense allowance (note: this allowance for expenses not recovered from tenants).

### 3. Calculate net operating income

The calculation will usually look like this:

- Gross operating income (income from all source including parking and storage)
  - Less allowance for long term vacancies
  - Less the expense allowance
- Equals net operating income

### 4. Determine the market capitalization rate

You need details on the sales of similar properties, analyze their income and expenses, *stabilize* these figures, and calculate the capitalization rate.

*Stabilizing the figures* is usually done by a professional appraiser who can ensure that the sales and your property are analyzed in a similar way so they can be properly compared.

**Capitalization rate:** is the potential rate of return on a real estate investment, calculated by taking the future net operating income of a sold property and dividing it by the sale price. Usually the income projected for the year immediately following the sale is used.

### 5. Calculate the market value of the property under appeal.

Take the net operating income and divide it by the market capitalization rate to calculate the market value of the property.

#### Hints on using the Income Approach

**Total value:** The Property Assessment Appeal Board will concentrate on the total value of your property. You may disagree with individual inputs, such as a rental or capitalization rate, but that is not sufficient for an appeal. You must calculate the market value of the whole property.

**Option to use BC Assessment's figures:** You may decide to look at the figures or inputs BC Assessment used for their income approach calculation. If you agree with the BC Assessment's figures you can use them. If not, you need to do your own research on market allowances. Make sure that you have market evidence to support your numbers and have a clear rationale for using them.

## Estimating value using the Direct Comparison Approach

### What is the direct comparison approach?

The direct comparison approach estimates the value of your property by comparing it with the sales of similar properties.

### What are the steps in the direct comparison approach?

- **Find properties that are similar and have recently sold**  
Look for properties that have sold and have the same highest and best use, the same zoning, and are located in the same general area.

*Remember:*

- Sales should be arm's length transactions (sold to unrelated parties).
- Try to find properties that sold close to the July 1<sup>st</sup> valuation date (e.g. July 1, 2018 for the 2019 assessment) or within several months before and after this date.

- **Select the best unit of comparison**

Since properties are different, you need to compare them using common factors such as:

- *For land:* value per acre, value per square foot, value per frontage foot or value per allowable buildable square foot
- *For office buildings:* value per square foot of gross leasable area, or value per square foot of gross building area
- *For retail buildings:* value per square foot of gross leasable area
- *For industrial or warehouse buildings:* value per square foot of gross leasable area, value per cubic foot of gross building volume
- *For apartment buildings:* value per unit, value per room, value per square foot of building area

- **Identify differences between your property and the sales or other special circumstances**

What are differences between the sold properties and the property under appeal? Examples are:

- Special financing in place at time of sale (Did the seller provide the financing?)
- Leaseback of the property to the vendor
- Distressed sale (for example: bankruptcy)
- Market movement (between the valuation date of July 1, and the sale dates) - sometimes referred to as "time adjustment"
- Different zoning
- Location or access to transit
- Differences in quality, condition, or age of the improvements and parking
- Differences in land characteristics, including view, accessibility, servicing, and topography

- **Make adjustments for the differences**

First, apply any time adjustment for the difference in market values between the valuation date and the sale date. You then adjust for other differences you identified between your property and the sales. There are two methods to do this:

- quantitative adjustments, and
- qualitative adjustments.

**Method 1 - Quantitative Adjustments:** You adjust for differences numerically by adding and subtracting dollar amounts or percentages to account for differences.

If the sold property is inferior to yours, you add to its sale price. If the sold property is superior to yours, you subtract from its sale price.

*For example:* The comparable sold for \$150,000. You adjust for being superior (either larger, better location, newer, etc.), and you estimate the adjustment to be 10% (or \$15,000). Subtract \$15,000 from the sale price to arrive at an adjusted sale price of \$135,000.

Adjustments should be based on market evidence. Provide an explanation for why you chose to add or subtract value for a given feature and the amount of adjustments.

**Method 2: Qualitative Adjustments:** You may adjust for differences by rating the quality of each sold property's attributes in comparison to your property. You can rate the attributes with descriptive words such as "similar", "inferior" and "superior."

Ensure you provide explanations for your ratings.

- **Review the sales to arrive at a conclusion based on the Direct Comparison Approach**

Usually, your analysis will not provide you with a single value. Often your adjusted sales will indicate a range of value for your property (for example, \$60 to \$70 per square foot of leasable area). You should provide an explanation of where in that range you think your property's market value best fits.

## Estimating value using the Cost Approach

### What is the cost approach?

The cost approach estimates your property's value based on the cost to replace the land with a similar property and replace the improvements. The replacement cost of the improvements is then depreciated to account for age or "obsolescence".

The cost approach is not commonly used for income-producing properties because the market does not usually base the value on the cost to build. Usually, the value is based on the income the property generates.

The cost approach is often used with properties that do not commonly trade in the market or special purpose properties (for example, marinas or major industrial properties).

The principle for the cost approach is that a person will not pay more for a property than the cost to replace it.

## **What are the steps in the cost approach?**

### **1. Estimate the value of the land using the direct comparison approach**

See the above section for the direct comparison approach.

### **2. Estimate the replacement value of the improvements**

Appraisers use costing manuals adjust for local conditions, typically the Marshall & Swift Manual. You may not have access to these manuals as they are not readily available. Another source is construction costs derived from local contractors.

### **3. Adjust the replacement value by deducting depreciation**

Unless the building is brand new, you will deduct some depreciation for the age and usage of the building and any loss in utility from other factors (you may hear this called “obsolescence”). It is difficult to accurately estimate depreciation from all sources, especially for older buildings.

#### **Depreciation:**

Depreciation is typically calculated using costing manuals, which consider a building’s construction, age, condition, location, and style. It is not possible to estimate the depreciation properly without these manuals and in depth knowledge of the calculations.

### **4. Calculate the property value under the cost approach**

The calculation will usually look like:

- Land value
- Plus replacement value for all improvements
- Less depreciation on the improvements
- Equals total value under the cost approach.

## **Conclusion on Market Value**

Once you have analyzed the value using one or more of the above methods, you need to reach a conclusion on the market value of your property. Normally, the estimated values will be different under each approach. Therefore, you should determine which approach is most appropriate for your property. Provide some reasons why you prefer one valuation approach over another.

### **Hints on your market value conclusion**

A large difference between the values from the different approaches may be explained by the property's highest and best use or a problem with one of the approaches.

#### **Example 1:**

- The income approach provides much lower value than the direct comparison approach.
- This may indicate that the highest and best use of the property is for redevelopment. Any sale of the property will likely be for what developers will pay for redeveloping the property into a higher use (rather than for the property's current use).

#### **Example 2:**

- The cost approach shows a much higher value than the direct comparison approach.
- There may be a problem with the cost approach, such as it has not fully accounted for the depreciation of the improvements.

# Appendix 1 – Property Valuation Summary sample

## BC Assessment - Commercial Income Property Value Summary (Actual)

\* Actual Values are Subject to Change \*

Roll # 99-799-BRIANG.002

Location 54321 SOMEWHERE Blvd ZETU CREEK Z4Y 3X2 - Dummy Test Jurisdiction (799)

Lot Size (Effective) 6 Acres

No photo exists for this Folio

No sketch exists for this Folio

Description Warehouse, Distribution

Pred Building Year Built 2016

Pred Building Quality Average

Pred Building Effective Year 2016

### Income Valuation

Building ID 355002 Distribution Warehouse

Income ID 373847

Unit	Unit of Measure	# Units	Rent	Gross Income	Vacancy	Expense	NOI Value
1402 - WAREHOUSE	IND GLA	100000	\$8.00	\$800,000	10.00%	10.00%	\$648,000
<b>Total NOI Value</b>							\$648,000
<b>CAP Rate</b>							10.00%
<b>Income Value</b>							\$6,480,000
<b>Subtotal</b>							\$6,480,000
<b>Excess Land Value</b>							\$0
<b>Excess Residential Building Value</b>							\$0
<b>Legislated Improvement Value</b>							\$0
<b>Total Market Value</b>							\$6,480,000

### Land Valuation

Component No.	Zoning	Dimension	Rate	Component Value	Excess Value
1	AT	6.000 Acres	\$350,000.00/Acres	\$2,100,000	
<b>Total Land Value</b>					\$2,100,000

### Actual Land Values (Roll Year 2019)

PC	ExTx	Value	Override Value	Actual Value
06	00	\$2,100,000		\$2,100,000

\$2,100,000



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verification from original sources is at your own risk.

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Run Date 10-18-2018 1:58 PM

Roll Year 2019

Dummy Test Office

400-3450 Uptown Blvd Victoria BC V8Z 0B9

T: 1-866-825-8322 or 604-739-8588



## BC Assessment - Commercial Income Property Value Summary (Actual)

\* Actual Values are Subject to Change \*

Roll # 99-799-BRIANG.002  
Location 54321 SOMEWHERE Blvd ZETU CREEK Z4Y 3X2 - Dummy Test Jurisdiction (799)  
Lot Size (Effective) 6 Acres

### Actual Improvement Values (Roll Year 2019)

PC	ExTx	Value	Override Value	Actual Value
06	00	\$4,380,000		\$4,380,000
				\$4,380,000

Total Actual Value \$6,480,000

**Sales:** (includes the last three transfers recorded at the Land Title Office and may include non-arms length or questionable sales)

#1 A SINGLE IMPROVED SALE occurred on 03-07-2015. This was a CASH SALE and the price was 6,000,000.

The document # is: 546123X.

DRAFT



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