

Valuation Guidelines

March 2007



Office of the Chief Appraiser



Public Works and
Government Services
Canada

Travaux publics et
Services gouvernementaux
Canada

Canada

Valuation Guidelines

1A1 - Guidelines for Appraisal Reporting



Office of the Chief Appraiser



Public Works and
Government Services
Canada

Travaux publics et
Services gouvernementaux
Canada

Canada

VALUATION GUIDELINES

Guidelines for Appraisal Reporting

PURPOSE

The purpose of this guideline is to define the valuation requirements for the Federal Government.

TABLE OF CONTENTS

1.0 Preface.....2

2.0 Policies.....3

1.0 PREFACE

- 1.1 The Federal Government makes decisions on the purchase, lease, development, transfer, and expropriation of real property based, in part, on real property appraisals. Real property appraisals used by the Federal Government must therefore meet high standards of documentation, thoroughness and reasoning.
- 1.2 Provincial, national, and international real estate appraisal organizations have set high professional standards for their members. As a result, PWGSC consulted with and developed its real property valuation standards to meet the minimum content adopted by the major organizations of professional appraisers. In the preceding context PWGSC signed a Memorandum of Understanding with each the *Appraisal Institute of Canada (AIC)* and *l'Ordre des évaluateurs agréés du Québec (OEAQ)*.
- 1.3 PWGSC Valuation Guidelines for Narrative Appraisal Reports (1B1), Short Narrative Appraisal Reports (1B2), Form Appraisal Reports (1B3) and Update Reports (1B4), are by their design, consistent with the standards required by the AIC and the OEAQ.
- 1.4 The *Appraisal Institute of Canada (AIC)* is the most widely accepted national real estate appraisal organization in Canada. Any appraiser who is an accredited member of the AIC must provide appraisal services in compliance with the *Canadian Uniform Standards of Professional Appraisal Practice (CUSPAP)*.
- 1.5 *L'Ordre des évaluateurs agréés du Québec (OEAQ)* is the principal organization regulating and controlling real estate appraisal in the Province of Quebec, and is responsible for the development and maintenance of highly dependable professional practices and standards. Any appraiser who is an accredited member of the OEAQ must provide appraisal services in compliance with the Professional Code and Code of Ethics, as set out by the OEAQ, as well as with *les Normes de pratique professionnelle*.
- 1.6 The *Uniform Standards of Professional Appraisal Practice (USPAP)* is produced and maintained by *The Appraisal Foundation* in the United States. These standards are for all real and personal property assets and are widely adopted by many appraisal organizations in North America. They form the basis for the standards subsequently adopted by the AIC and OEAQ.
- 1.7 *The International Valuation Standards Committee (IVSC)* prepares and maintains a set of comprehensive and robust international standards, named *The International Valuation Standards (IVS)*, to facilitate cross-border transactions involving property and contribute to both domestic and international financial stability.

2.0 POLICIES

Board's defined value thresholds.

- 2.1 In addition to adhering to the professional standards outlined by the organization from which the appraiser is a member, he or she must meet the *PWGSC Policies and Valuation Guidelines* outlined in the applicable section when preparing a report for the Federal Government.
- 2.2 Where appraisal reports are required for real property outside of Canada, the *International Valuation Standards* will be considered the professional standard for reporting purposes, in addition to the *PWGSC Policies and Valuation Standards* outlined in the applicable guideline.
- 2.3 All appraisal reports commissioned by PWGSC are subject to review for compliance with the *Contract for Services*, as well as the *PWGSC Policies and Valuation Guidelines* outlined in the applicable section. This must be completed to the satisfaction of the Chief Appraiser or designate.
- 2.4 Appraisal reports commissioned by others and submitted for review to PWGSC will be reviewed for compliance with industry standards and the appraisal's *Terms of Reference*, if available.
- 2.5 Preliminary Estimates and Attestations prepared by PWGSC employees are not considered to be appraisals that are subject to this same degree of rigor. They are not subject to review by the Chief Appraiser or designate, nor are they subject to any professional standards. They are internal documents, used for planning purposes or in support of business decisions involving transactions that are under Treasury

Valuation Guidelines

1B1 - Narrative Appraisal Report



Office of the Chief Appraiser



VALUATION GUIDELINES

Narrative Appraisal Report

PURPOSE

The Chief Appraiser of Canada or designate, provides real estate valuation advice to the Federal Government, and is responsible for the development of real property valuation guidelines. Narrative Appraisal Reports are to be prepared in accordance with the *PWGSC Policies and Valuation Guidelines* appearing herein.

TABLE OF CONTENTS

1.0	Preface.....	2
2.0	Policies.....	2
3.0	PWGSC Valuation Requirements.....	3

APPENDICES

- A. Appraisal Report Comparison Chart

1.0 PREFACE

- 1.1 The Federal Government makes decisions on the purchase, lease, development, transfer, and expropriation of real property based in part, on real property appraisals. Real property appraisals used by the Federal Government must therefore meet high standards of documentation, thoroughness and reasoning.
- 1.2 Provincial, national, and international real estate appraisal organizations have set high professional standards for their members. As a result, PWGSC consulted with and developed its real property valuation standards to meet the minimum content adopted by the major organizations of professional appraisers. In the preceding context PWGSC signed a Memorandum of Understanding with each the *Appraisal Institute of Canada (AIC)* and *l'Ordre des évaluateurs agréés du Québec (OEAQ)*.
- 1.3 PWGSC generally requires a Narrative Appraisal Report (1B1), a Short Narrative Appraisal Report (1B2), a Form Appraisal Report (1B3) or an Update Report (1B4). The prominent difference between these reporting formats is the level and depth of information and analysis provided in the report.

2.0 POLICIES

- 2.1 In addition to adhering to the professional standards outlined by the organization from which he or she is designated, the appraiser must meet the *PWGSC Policies and Valuation Guidelines* outlined in sections 2.0 and 3.0 of this guideline respectively.
- 2.2 The report must be documented and supported so as to convince an impartial reader of the soundness of the conclusions. The material should be set forth as concisely as possible, in order to achieve effective communication with the reader while conserving the reader's time.
- 2.3 The appraiser must ensure that his or her appraisal is impartial, objective and does not illegally discriminate or contribute to illegal discrimination through subjective or stereotypical assumptions.
- 2.4 If, as by prior agreement between the appraiser and PWGSC, the report prepared does not meet the minimum content requirements as set out by his or her respective organization, the report is considered a 'limited' or 'restricted' appraisal. The appraiser must make this fact clear to the reader so as not to mislead, including reasons for departure from the usual minimum content required as well as the effect that this departure may have on the final value conclusions of the report.
- 2.5 If certain information is not obtainable, restricted due to legislation, or considered confidential under privacy constraints, a clear statement must be made in the report as to why it was excluded and how it was

verified, as well as that the information represents an arms length transaction. All information in the appraisers file must be available for viewing by the client.

- 2.6 The Federal Government must retain copyright to the report, and be given authorization to rely on the report for the purpose(s) stated.
- 2.7 It is not reasonable for any person other than the Federal Government to rely upon the report without first obtaining the written authorization of both the Chief Appraiser or designate, as well as the appraiser responsible for the report.
- 2.8 The appraiser designated in the *Contract for Services* shall be the only signatory of the report, and shall assume full responsibility for the contents and conclusions of the report.
- 2.9 The appraiser designated in the *Contract for Services* must inspect the subject property.
- 2.10 The report is subject to review for compliance with the *Contract for Services*, as well as the *PWGSC Policies and Valuation Guidelines* appearing herein. This must be completed to the satisfaction of the Chief Appraiser or designate.
- 2.11 The Chief Appraiser or designate holds the authority to revise these guidelines as required on a case-by-case basis. Therefore, instructions included in the *Contract for Services* shall take precedence over those appearing in this guideline.

3.0 PWGSC VALUATION REQUIREMENTS

In addition to adhering to the professional standards outlined by the organization from which he or she is designated, the appraiser must meet the *PWGSC Valuation Guidelines* outlined in this section and to the level of detail indicated in Appendix A, when preparing a Narrative Appraisal Report for the Federal Government.

The *PWGSC Valuation Guidelines* are not intended to be an exhaustive list of report inclusions. It is the appraiser's responsibility to adhere to the minimum required content as outlined by the organization from which he or she is designated, and to present information as necessary to make his or her analysis clear and understood.

Note: Metric units of measurements (or metric followed by imperial in brackets) must be used throughout the report.

PART I INTRODUCTION

3.1 Title Page

This includes:

- a. Name of owner(s)
- b. Address of the property (or a brief legal description, if no postal address is available)
- c. Type of property (residential, industrial, commercial, vacant land, etc.)
- d. Name of the individual preparing the report
- e. Name of the person to whom the report is being addressed.

3.2 Letter of Transmittal

A normal letter including:

- a. Address of appraiser
- b. Current date
- c. Name and address of addressee
- d. Date and source of authorization to mandate the appraisal
- e. Identification of value and interest appraised
- f. Effective date of the appraisal
- g. Exposure time and critical and/or extraordinary assumptions
- h. The signature of the appraiser designated in the *Contract for Services*

3.3 Table of Contents**3.4 Photographs**

If the appraisal includes substantial buildings, place a single enlarged front/side angle view of the major improvement at this point in the report and additional photographs of the subject(s) in the addenda.

3.5 Executive Summary

Limited to basic facts and the value estimated by each approach.

PART II FACTUAL DATA**3.6 Definition of the Appraisal Problem**

- a. Intended Use of the Report
- b. Purpose of the Assignment
- c. Property Rights Appraised
- d. Definition of Value
- e. Effective Date of Value

3.7 Scope of Work

Describe the extent of collecting, confirming and reporting the data.

N.B.: Please note that the appraiser is required to discuss their ability to investigate matters mentioned in part II (more specifically Sections 3.12 to 3.18)

3.8 Assumptions and Limiting Conditions

This includes:

- a. Assumptions and limiting conditions on which the value conclusion is based
- b. Assumptions made by the appraiser or by client instructions with respect to a matter which is critical and/or extraordinary to the value conclusion, i.e., a proposed zoning change on which the Highest and Best Use is based.
- c. The limiting conditions must not restrict the Federal Government's copyright to the appraisal report.
- d. The limiting conditions must not restrict the Federal Government's authorization to rely on the report for the purpose(s) stated.
- e. The use of the report is restricted to the Federal Government, unless written authorization is obtained from both the Chief Appraiser or designate, and the appraiser responsible for the report.
- f. The following wording should be used in the limiting conditions:

It is not reasonable for any person other than the Federal Government to rely upon the report without first obtaining written authorization of both the Chief

Appraiser of Canada or designate, and the appraiser. The report was prepared under the assumption that no other person will rely on it for any other purpose and that all liability to all such persons is denied.

3.9 Identification of the Property

This includes:

- a. Municipal address. If no municipal address exists, provide sufficient identification data over and above the legal description to clearly identify the property, referencing, if necessary, other established points
- b. Legal description. If the legal description is lengthy, refer to it in the report and include a full description in an addenda

3.10 Regional and City Data

Describe the geographic location of the community and social, political or economic data pertinent to the subject property and its final value.

3.11 Neighbourhood Data

Describe social, political and economic factors pertinent to the subject property and its final value.

3.12 The Site

This includes:

- a. A site plan or sketch
- b. Size, frontage, shape and dimensions
- c. Describe access to the site and location of the site with respect to side streets, within the block or within the neighbourhood

- d. Include details with respect to topography, easements, soil conditions, mineral deposits
- e. Describe adjacent properties, and whether they are detrimental to or harmonious with the subject property
- f. Describe hazardous factors i.e., floods, odours, etc.
- g. Indicate site contamination
- h. Discuss detrimental factors revealed in an environmental site assessment

3.13 Services Available to the Site

These include:

- a. Municipal services and utilities available
- b. Well and septic tank (the latter condition may be included in Site Improvements)
- c. Size, capacity and adequacy of services
- d. Location of services if not at the site
- e. Probability and cost to extend services to the site

3.14 The Building(s)

A description of the buildings, including:

- a. Date of Inspection
- b. Type of building
- c. Chronological age, effective age, and remaining economic life
- d. Basic type of structure and building materials used in the main components
- e. Gross and net area (cubic or by square meter)
- f. Description and size of the rental areas, where applicable, including method or source of measurements used
- g. Type of occupancy
- h. General condition of building and

systems as a basis for estimating the physical obsolescence

- i. Description of the functional design and accessibility as a basis for estimating the functional obsolescence
- j. Outstanding work orders

3.15 Site Improvements

Include items such as landscaping, driveways, retaining walls and other improvements to the site.

3.16 Assessments and Taxes

This includes:

- a. Current assessed value and tax rate and the possibility of any significant changes
- b. Discuss whether taxes are fully paid to the date of appraisal or if any arrears exist
- c. Discuss whether the subject's assessed value appears equitable
- d. Information regarding local improvement charges included in the annual taxes

3.17 Sales History

This includes:

- a. Current owner
- b. Dates and data with respect to changes of ownership for at least the 3 years prior to the date of the appraisal
- c. Current agreement of sale, option or listing of the subject property
- d. Major additions or alterations carried out

3.18 Encumbrances on Title

Include pertinent details regarding mortgages, financial obligations, easements, etc.

3.19 Lease Details

Details of any lease, sub-lease, or rental such as:

- a. Lease Term
- b. Commencement date
- c. Expiry date
- d. Renewal options
- e. Rental payments
- f. Type of lease
- g. Allocation of expenses
- h. Identification of location and size of demised area
- i. Name(s) and occupation(s) of the tenant(s)
- j. Net Effective rent (explain the incentives accounted for in the discounting and show calculations)

3.20 Land Use Controls

Describe the nature and detail of any land use controls, including zoning, official plans and restrictions that affect the subject property. Also:

- a. Discuss if the property is government owned
- b. Discuss if zoned for public/institutional use
- c. Probable zoning and rationale if it were under private ownership
- d. Potential rezoning or change in land use control
- e. Discuss whether any applications for rezoning have been filed

- f. Discuss if the existing zoning and land use is consistent with the *Official Plan*
- g. When dealing with “development” parcels or properties with surplus land, investigate and comment on the subdivision/land severance policies of the *Official Plan*
- h. Include copy of pertinent zoning map in addenda

PART III ANALYSIS AND CONCLUSION

3.21 Highest and Best Use

Include a definition of ‘highest and best use’. Where the property is improved, analyze the highest and best use of the site both as if vacant and as improved.

Provide a narrative analysis leading to the highest and best use conclusion, clearly stating the conclusion.

The conclusion must be logical, reasonable, legal (particularly zoning), physically possible, and marketable and one for which there is a demand.

3.22 Appraisal Analysis

This constitutes an explanation of the reasons and thinking behind the methods used in the valuation, to prepare the client for the appraisal techniques that follow.

All conventional valuation approaches (Cost, Income and Direct Comparison) must be considered in the appraisal report. If any approach (es) is (are) not

used, the appraiser must provide reasonable explanations for exclusion.

3.23 Land Value as if Vacant

When the direct comparison approach is used to support the estimate of land value, the following is required:

- a. Support the indicated value of land with confirmed sales of comparable lands having a similar highest and best use
- b. Use ‘Listings’ and ‘Offerings’ as supporting data only
- c. Present a data chart that includes the following:
 - Registered deed or certificate of title number
 - Address or legal description
 - Sale Price
 - Date of sale
 - Date of registration
 - Vendor/purchaser
 - Dimensions/area
 - Shape
 - Topography
 - Zoning/land use designation
 - Rate per unit
 - Other factors
- d. Use an adjustment chart if appropriate
- e. Analyze differences, fully explaining and supporting adjustments
- f. Include a map indicating the proximity of the indexes to the subject

When other methods of land valuation are being applied (abstraction, extraction, land residual, subdivision methods), the appraiser must provide sufficient justification of all key elements to the

application of the method selected. Adjustment or other comparison charts, if appropriate, should be used to assist the reader in following the appraisal analysis.

3.24 Cost Approach

When this approach is used:

- a. Arrange data in sequence beginning with the reproduction or replacement cost, including respective sources
- b. When using costing manuals, include a copy of the worksheet in the addenda
- c. Explain the dollar amounts of depreciation in narrative form and break them down wherever possible into physical, functional and external depreciation
- d. Indicate effective age, economic life/remaining economic life
- e. Indicate physical depreciation, percent or amount and reason(s) why it applies
- f. Indicate functional depreciation, percent or amount and reason(s) why it applies
- g. Indicate external depreciation, percent or amount and reason(s) why it applies
- h. Indicate depreciated replacement/reproduction cost
- i. Indicate depreciated value of the site improvements, listing the improvements costed
- j. Value conclusion

3.25 Income Approach (es)

When this approach is used:

- a. Use data that is factual and supported

- b. Estimate net effective rent (giving consideration to recovery revenues)
- c. Analyze comparable market rent indexes and recognize incentives
- d. Allow for vacancy and credit losses
- e. Include an itemized estimate of expenses and reserves, including respective sources
- f. Explain the capitalization process, including respective sources of rates and factors from the market
- g. Where land or building residual techniques are applied, state appropriate capitalization rates and incomes attributable to land and building

3.26 Direct Comparison Approach

When this approach is used:

- a. Support the indicated value with confirmed sales of comparable properties with similar highest and best use
- b. Use listings and offerings as supporting data only
- c. Present a data chart that includes the following:
 - Registered deed or certificate of title number
 - Address or legal description
 - Sale Price
 - Date of sale
 - Date of registration
 - Vendor/purchaser
 - Dimensions/area of lot
 - Shape of lot
 - Zoning/land use designation
 - Dimensions/area of building(s)
 - Description of building(s)
 - Description of significant site improvements
 - Rate per unit

- Other factors

- d. Use an adjustment chart if appropriate
- e. Use adjustments that are quantitative or qualitative as appropriate
- f. Analyze differences, fully explaining and supporting adjustments
- g. Include a map indicating the proximity of the indexes to the subject.

3.27 Reconciliation and Final Estimate of Value

Where two or more approaches to value have been used:

- a. Discuss the merits of each method
- b. Discuss the weighting given to each and rationale
- c. Provide the final conclusion

3.28 Exposure Time and Analysis

3.29 Certification

The certification letter should conform to the following:

- a. The appraiser designated in the *Contract for Services* must sign the certification and assume full responsibility for the report, its contents and conclusions.
- b. The appraiser designated in the *Contract for Services* must inspect the subject property

PART IV SUPPORTING DATA

3.30 Displays

Displays are graphic aids, such as tables, photos, maps etc., placed in the body of the report.

- a. Wherever possible, place graphic aids in association with the descriptive reference, either on the page facing the narrative or as part of the narrative
- b. Use photographs large enough and of high enough quality to enable the reader to visualize the subject and comparable properties
- c. Use wide-angle lens and aerial photos wherever feasible

3.31 Addenda

Addenda items are graphic aids or information not placed in the body of the report.

- a. Include maps, plans and photographs that clearly show all aspects of the property
- b. Include plot plans, building outline plans and location maps that enable the reader to visualize and understand the subject property and any appraisal problems
- c. Include details not contained in *Part III Analysis and Conclusion* of the report

3.32 Indexes

An index is a comparable sale, listing, rental or option, etc. While there is nothing wrong with the use of the word "comparable", it is very loose in its definition, since dissimilar things can be compared without providing an indication of value. The use of the word index can be applied to both sales and listings or any other data used. When using Indexes,

- a. Number indexes in order through the

whole appraisal regardless of type. For example, land indexes nos. 1-2-3-4, property indexes nos. 5-6-7-8. This makes for easy reference and prevents confusion in reading the appraisal. Plot each index on a map with reference number, showing the location of the index relative to the subject property.

- b. Place index details the addenda and reference them, or show them on a data chart in the body of the appraisal

3.33 Appraiser's Qualifications

- a. Academic Qualifications
- b. Membership in professional real estate organizations
- c. Pertinent practical experience
- d. If the appraiser is member of a professional real estate organization that has a mandatory re-certification program, certify that he or she has satisfied the requirements of such a re-certification program

Appendix A

Appraisal Report Comparison Chart¹

Content Requirements		Narrative Report	Short Narrative Report	Form Report
Part I Introduction				
3.1	Title Page	Include	Include	-
3.2	Letter of Transmittal	Include	Include	-
3.3	Table of Contents	Include	Include	-
3.4	Photographs	Include	Include	Include
3.5	Executive Summary	Include	Include	-
Part II Factual Data				
3.6	Definition of the Appraisal Problem	State	State	State
3.7	Scope of Work	Describe	Describe	Describe
3.8	Assumptions and Limiting Conditions	State	State	State
3.9	Identification of the Property	State	State	State
3.10	Regional and City Data	Describe	Summarize	State
3.11	Neighbourhood Data	Describe	Summarize	State
3.12	The Site	Describe	Summarize	State
3.13	Services Available to the Site	Describe	State	State
3.14	The Building (s)	Describe	Summarize	State
3.15	Site Improvements	Describe	Summarize	State
3.16	Assessments and Taxes	Describe	State	State
3.17	Sales History	Describe	Summarize	State
3.18	Encumbrances on Title	Describe	Summarize	State
3.19	Lease Details	Describe	Summarize	State (As required)
3.20	Land Use Controls	Describe	State	State
Part III Analysis and Conclusion				
3.21	Highest and Best Use	Describe	State	State
3.22	Appraisal Analysis	Describe	Summarize	State
3.23	Land Value as if Vacant	Describe	Summarize	State
3.24	Cost Approach	Describe	Summarize	State
3.25	Income Approach (es)	Describe	Summarize	State (As required)
3.26	Direct Comparison Approach	Describe	Summarize	State
3.27	Reconciliation and Final Estimate of Value	Describe	Summarize	State
3.28	Exposure Time Analysis	Describe	Summarize	State
3.29	Certification	Include	Include	Include
Part IV Supporting Data				
3.30	Displays	As Required	As Required	As Required
3.31	Addenda	As Required	As Required	As Required
3.32	Indexes	Include	Include	Include
3.33	Appraiser's Qualifications	Include	Optional	Optional

¹ Definitions:

Describe – Include all reasoning, analysis, data and opinions in support of this section

Summarize – Include main points in a succinct manner, with supporting information in the assignment file

State – Include statement of pertinent facts, with supporting information in the assignment file

Valuation Guidelines

1B2 - Short Narrative Appraisal

Report



Office of the Chief Appraiser



Public Works and
Government Services
Canada

Travaux publics et
Services gouvernementaux
Canada

Canada

VALUATION GUIDELINES

Short Narrative Appraisal Report

PURPOSE

The Chief Appraiser of Canada or designate, provides real estate valuation advice to the Federal Government, and is responsible for the development of real property valuation guidelines. Summary Appraisal Reports are to be prepared in accordance with the *PWGSC Policies and Valuation Guidelines* appearing herein.

TABLE OF CONTENTS

1.0	Preface.....	2
2.0	Policies.....	2
3.0	PWGSC Valuation Requirements.....	4

APPENDICES

- A. Appraisal Report Comparison Chart

1.0 PREFACE

- 1.1 The Federal Government makes decisions on the purchase, lease, development, transfer, and expropriation of real property based in part, on real property appraisals. Real property appraisals used by the Federal Government must therefore meet high standards of documentation, thoroughness and reasoning.
- 1.2 Provincial, national, and international real estate appraisal organizations have set high professional standards for their members. As a result, PWGSC consulted with and developed its real property valuation standards to meet the minimum content adopted by the major organizations of professional appraisers. In the preceding context PWGSC signed a Memorandum of Understanding with each the *Appraisal Institute of Canada (AIC)* and *l'Ordre des évaluateurs agréés du Québec (OEAQ)*.
- 1.3 PWGSC generally requires a Narrative Appraisal Report (1B1), a Short Narrative Appraisal Report (1B2), a Form Appraisal Report (1B3) or an Update Report (1B4) . The prominent difference between these reporting formats is the level and depth of information and analysis provided in the report.

2.0 POLICIES

- 2.1 In addition to adhering to the professional standards outlined by the organization from which he or she is designated, the appraiser must meet the *PWGSC Policies and Valuation Guidelines* outlined in sections 2.0 and 3.0 of this guideline respectively.
- 2.2 The depth and degree of research and analysis required in a Summary Appraisal Report is the same as for a Narrative Appraisal Report. Detailed data and analyses are to be retained on file, should a full written report be required at a later date. The written level of detail reported is expected to summarize the findings.
- 2.3 The report must be documented and supported so as to convince an impartial reader of the soundness of the conclusions. The material should be set forth as concisely as possible, in order to achieve effective communication with the reader while conserving the reader's time.
- 2.4 The appraiser must ensure that his or her appraisal is impartial, objective and does not illegally discriminate or contribute to illegal discrimination through subjective or stereotypical assumptions.
- 2.5 If, as by prior agreement between the appraiser and PWGSC, the report prepared does not meet the minimum content requirements as set out by his or her respective organization, the report is considered a 'limited' or 'restricted' appraisal. The appraiser must make this fact clear to the reader so as not to mislead, including reasons for departure from the usual minimum content required as well

as the effect that this departure may have on the final value conclusions of the report.

- 2.6 If certain information is not obtainable, restricted due to legislation, or considered confidential under privacy constraints, a clear statement must be made in the report as to why it was excluded and how it was verified, as well as that the information represents an arms length transaction. All information in the appraisers file must be available for viewing by the client.
- 2.7 The Federal Government must retain copyright to the report, and be given authorization to rely on the report for the purpose(s) stated.
- 2.8 It is not reasonable for any person other than the Federal Government to rely upon the report without first obtaining the written authorization of both the Chief Appraiser or designate, as well as the appraiser responsible for the report.
- 2.9 The appraiser designated in the *Contract for Services* shall be the only signatory of the report, and shall assume full responsibility for the contents and conclusions of the report.
- 2.10 The appraiser designated in the *Contract for Services* must inspect the subject property.
- 2.11 The report is subject to review for compliance with the *Contract for Services*, as well as the *PWGSC Policies and Valuation Standards* appearing herein. This must be completed to the satisfaction of the Chief Appraiser or designate.
- 2.12 The Chief Appraiser or designate holds the authority to revise these guidelines as required on a case-by-case basis. Therefore, instructions included in the *Contract for Services* shall take precedence over those appearing in this guideline.

3.0 PWGSC VALUATION REQUIREMENTS

In addition to adhering to the professional standards outlined by the organization from which he or she is designated, the appraiser must meet the *PWGSC Valuation Guidelines* outlined in this section when preparing a Summary Appraisal Report for the Federal Government.

The *PWGSC Valuation Guidelines* are not intended to be an exhaustive list of report inclusions. It is the appraiser's responsibility to adhere to the minimum required content as outlined by the organization from which he or she is designated, and to present information as necessary to make his or her analysis clear and understood.

Note: Metric units of measurements (or metric followed by imperial in brackets) must be used throughout the report.

PART I INTRODUCTION

3.1 Title Page

This includes:

- a. Name of owner(s)
- b. Address of the property (or a brief legal description, if no postal address is available)
- c. Type of property (residential, industrial, commercial, vacant land, etc.)
- d. Name of the individual preparing the report
- e. Name of the person to whom the report is being addressed.

3.2 Letter of Transmittal

A normal letter including:

- a. Address of appraiser
- b. Current date
- c. Name and address of addressee
- d. Date and source of authorization to mandate the appraisal
- e. Identification of value and interest appraised
- f. Effective date of the appraisal
- g. Exposure time and critical assumptions
- h. The signature of the appraiser designated in the *Contract for Services*

3.3 Table of Contents

Recommended if report is greater than 20 pages in length.

3.4 Photographs

If the appraisal includes substantial buildings, place a single enlarged front/side angle view of the major improvement at this point in the report and additional photographs, if available, of the subject(s) in the addenda.

3.5 Executive Summary

This should be limited to basic facts and the value estimated by each approach.

Recommended if report is greater than 20 pages in length.

3.6 Definition of the Appraisal Problem

- a. Intended Use of the Report
- b. Purpose of the Assignment

- c. Property Rights Appraised
- d. Definition of Value
- e. Effective Date of Value
- f. Client and Intended Users
- g. Date of Inspection

3.7 Scope of Work

Describe the extent of collecting, confirming and reporting the data.

3.8 Regional, City and Neighbourhood Data

Brief summary required.

3.9 Property Overview

This includes:

- a. Property type
- b. Municipal address
- c. Existing uses
- d. Sales history, history of ownership
- e. Assessment and tax levy

3.10 The Site

This includes:

- a. Size
- b. Services to site
- c. Briefly discuss site factors that may be detrimental to the property, such as topography, soil, contamination, access required
- d. Legal description
- e. Brief description of Title encumbrances
- f. Land use controls
- g. Site improvements

3.11 The Building(s)

A description of the buildings, including:

- a. Type of building
- b. Chronological age, effective age and remaining economic life
- c. Brief summary of basic type of structure and building materials used in the main components
- d. Gross and net area (cubic or by square meter)
- e. Brief description of condition and functional deficiency description

3.12 Highest and Best Use

Include a statement of opinion of highest and best use.

3.13 Appraisal Analysis

If any of the conventional valuation approach (es) is (are) not used, or deemed irrelevant to the assignment, the appraiser must provide reasonable explanations for its exclusion.

3.14 Land Value as if Vacant

When the direct comparison approach is used to support the estimate of land value, the following is required:

- a. Present a data chart that includes the following:
 - Address or legal description
 - Sale Price
 - Date of sale
 - Area of lot
 - Topography if relevant
 - Zoning/land use designation
 - Rate per unit
- b. Brief analysis leading to land value conclusion

3.15 Cost Approach

When this approach is used, estimate:

- a. Building value calculations, and source of costing
- b. Building depreciation calculations
- c. Building value
- d. Site improvement value calculations
- e. Site depreciation calculations
- f. Site value
- g. Total value conclusion

3.16 Income Approach (es)

When this approach is used, estimate:

- a. Potential gross income
- b. Vacancy and bad debt allowance
- c. Effective gross income
- d. Expense allocation
- e. Net operating income
- f. Capitalization rate and method of derivation
- g. Analysis and value conclusion

3.17 Direct Comparison Approach

When this approach is used:

- a. Present a data chart that includes the following:
 - Address or legal description
 - Sale Price
 - Date of sale
 - Area of lot
 - Zoning/land use designation
 - Dimensions/area of building(s)
 - Brief description of building(s)
 - Brief description of significant site improvements
 - Rate per unit
 - Other factors
- b. Use an adjustment chart if appropriate
- c. Analysis and value conclusion

3.18 Reconciliation and Final Estimate of Value

Where two or more approaches to value have been used, provide:

- a. Final conclusion and rationale
- b. Statement of Exposure Time

3.19 Certification

A standard certification letter may be used, but must conform to the following:

- a. The appraiser designated in the *Contract for Services* must sign the certification and assume full responsibility for the report, its contents and conclusions.
- b. The appraiser designated in the *Contract for Services* must inspect the subject property.

3.20 Assumptions and Limiting Conditions

This includes:

- a. Assumptions and limiting conditions on which the value conclusion is based
- b. Assumptions made by the appraiser or by client instructions in respect to a matter, which is critical to the value conclusion, i.e., a proposed zoning change on which the highest and best use is based.
- c. The limiting conditions must not restrict the Federal Government's copyright to the appraisal report.
- d. The limiting conditions must not restrict the Federal Government's authorization to rely on the report for the purpose(s) stated.
- e. The use of the report is restricted to the Federal Government, unless

written authorization is obtained from both the Chief Appraiser or designate, and the appraiser responsible for the report.

- f. The following wording should be used in the limiting conditions:

It is not reasonable for any person other than the Federal Government to rely upon the report without first obtaining written authorization of both the Chief Appraiser of Canada or designate, and the appraiser. The report was prepared under the assumption that no other person will rely on it for any other purpose and that all liability to all such persons is denied.

3.21 Displays (as required)

The appraiser should only select the most pertinent supporting data to include with the Summary Narrative Appraisal Report. Examples include:

- a. Graphic aids, which involve the use of tables, maps, plot plans, floor plans, photographs, etc. To convey information obscured by narrative style
- b. A map showing the reader the location of indexes in relation to the subject's location would be beneficial

3.22 Addenda

3.23 Appraiser's Qualifications (optional)

- a. Membership in professional real estate organizations
- b. If the appraiser is member of a professional real estate organization that has a mandatory re-certification program, certify that he or she has satisfied the requirements of such a re-certification program

Appendix A

Appraisal Report Comparison Chart¹

Content Requirements		Narrative Report	Short Narrative Report	Form Report
Part I Introduction				
3.1	Title Page	Include	Include	-
3.2	Letter of Transmittal	Include	Include	-
3.3	Table of Contents	Include	Include	-
3.4	Photographs	Include	Include	Include
3.5	Executive Summary	Include	Include	-
Part II Factual Data				
3.6	Definition of the Appraisal Problem	State	State	State
3.7	Scope of Work	Describe	Describe	Describe
3.8	Assumptions and Limiting Conditions	State	State	State
3.9	Identification of the Property	State	State	State
3.10	Regional and City Data	Describe	Summarize	State
3.11	Neighbourhood Data	Describe	Summarize	State
3.12	The Site	Describe	Summarize	State
3.13	Services Available to the Site	Describe	State	State
3.14	The Building (s)	Describe	Summarize	State
3.15	Site Improvements	Describe	Summarize	State
3.16	Assessments and Taxes	Describe	State	State
3.17	Sales History	Describe	Summarize	State
3.18	Encumbrances on Title	Describe	Summarize	State
3.19	Lease Details	Describe	Summarize	State (As required)
3.20	Land Use Controls	Describe	State	State
Part III Analysis and Conclusion				
3.21	Highest and Best Use	Describe	State	State
3.22	Appraisal Analysis	Describe	Summarize	State
3.23	Land Value as if Vacant	Describe	Summarize	State
3.24	Cost Approach	Describe	Summarize	State
3.25	Income Approach (es)	Describe	Summarize	State (As required)
3.26	Direct Comparison Approach	Describe	Summarize	State
3.27	Reconciliation and Final Estimate of Value	Describe	Summarize	State
3.28	Exposure Time Analysis	Describe	Summarize	State
3.29	Certification	Include	Include	Include
Part IV Supporting Data				
3.30	Displays	As Required	As Required	As Required
3.31	Addenda	As Required	As Required	As Required
3.32	Indexes	Include	Include	Include
3.33	Appraiser's Qualifications	Include	Optional	Optional

¹ Definitions:

Describe – Include all reasoning, analysis, data and opinions in support of this section

Summarize – Include main points in a succinct manner, with supporting information in the assignment file

State – Include statement of pertinent facts, with supporting information in the assignment file

Valuation Guidelines

1B3 - Form Appraisal Report



Office of the Chief Appraiser



Public Works and
Government Services
Canada

Travaux publics et
Services gouvernementaux
Canada

Canada

VALUATION GUIDELINES

Form Appraisal Report

PURPOSE

The Chief Appraiser of Canada or designate, provides real estate valuation advice to the Federal Government, and is responsible for the development of real property valuation guidelines. Form Appraisal Reports are to be prepared in accordance with the *PWGSC Policies and Valuation Guidelines* appearing herein.

TABLE OF CONTENTS

1.0	Preface.....	2
2.0	Policies.....	2
3.0	PWGSC Valuation Requirements – Residential Form Report.....	4
4.0	PWGSC Valuation Requirements – Industrial/Commercial Form Report.....	5
5.0	PWGSC Valuation Requirements – Vacant Land Form Report.....	7
6.0	Appraiser’s Qualifications.....	7

APPENDICES

A	Appraisal Report Comparison Chart	
---	-----------------------------------	--

1.0 PREFACE

- 1.1 The Federal Government makes decisions on the purchase, lease, development, transfer, and expropriation of real property based in part, on real property appraisals. Real property appraisals used by the Federal Government must therefore meet high standards of documentation, thoroughness and reasoning.
- 1.2 Provincial, national, and international real estate appraisal organizations have set high professional standards for their members. As a result, PWGSC consulted with and developed its real property valuation standards to meet the minimum content adopted by the major organizations of professional appraisers. In the preceding context PWGSC signed a Memorandum of Understanding with each the *Appraisal Institute of Canada (AIC)* and *l'Ordre des évaluateurs agréés du Québec (OEAQ)*.
- 1.3 PWGSC generally requires a Narrative Appraisal Report (1B1), a Summary Narrative Appraisal Report (1B2), a Form Appraisal Report (1B3) or an Update Report (1B4). The prominent difference between these reporting formats is the level and depth of information and analysis provided in the report.

2.0 POLICIES

- 2.1 In addition to adhering to the professional standards outlined by the organization from which he or she is designated, the appraiser must meet the *PWGSC Policies and Valuation Guidelines* outlined in sections 2.0, 3.0 (PWGSC Valuation Standards for Residential Form Reports) and 4.0 (PWGSC Valuation Standards for Commercial/ Industrial Form Reports) of this guideline respectively.
- 2.2 The depth and degree of research and analysis required in a Form Appraisal Report is the same as for a Narrative Appraisal Report. Detailed data and analyses are to be retained on file. The data, analysis and conclusions are to be reported in a 'form' format, providing the client with sufficient detail and explanation to understand the appraiser's reasoning and final conclusions.
- 2.3 Whenever possible, two or more approaches to value must be applied in the form appraisal report, even if the subordinate approach (es) is (are) used only as a cross check on the value derived from the more appropriate or better substantiated approach. However, all conventional valuation approaches should be considered. If any approach (es) is (are) not used the appraiser must provide reasonable explanations for exclusion.
- 2.4 The report must be documented and supported so as to convince an impartial reader of the soundness of the conclusions. The material should be set forth as concisely as possible, in order to achieve effective communication with the reader

while conserving the reader's time.

- 2.5 The appraiser must ensure that his or her appraisal is impartial, objective and does not illegally discriminate or contribute to illegal discrimination through subjective or stereotypical assumptions.
- 2.6 If, as by prior agreement between the appraiser and PWGSC, the report prepared does not meet the minimum content requirements as set out by his or her respective organization, the report is considered a 'limited' or 'restricted' appraisal. The appraiser must make this fact clear to the reader so as not to mislead, including reasons for departure from the usual minimum content required as well as the effect that this departure may have on the final value conclusions of the report.
- 2.7 If certain information is not obtainable, restricted due to legislation, or considered confidential under privacy constraints, a clear statement must be made in the report as to why it was excluded and how it was verified, as well as that the information represents an arms length transaction. All information in the appraisers file must be available for viewing by the client.
- 2.8 The Federal Government must retain copyright to the report, and be given authorization to rely on the report for the purpose(s) stated.
- 2.9 It is not reasonable for any person other than the Federal Government to rely upon the report without first obtaining the written authorization of both the Chief Appraiser or designate, as well as the appraiser responsible for the report.
- 2.10 The appraiser designated in the *Contract for Services* shall be the only signatory of the report, and shall assume full responsibility for the contents and conclusions of the report.
- 2.11 The appraiser designated in the *Contract for Services* must inspect the subject property.
- 2.12 The report is subject to review for compliance with the *Contract for Services*, as well as the *PWGSC Policies and Valuation Guidelines* appearing herein. This must be completed to the satisfaction of the Chief Appraiser or designate.
- 2.13 The Chief Appraiser or designate holds the authority to revise these guidelines as required on a case-by-case basis. Therefore, instructions included in the *Contract for Services* shall take precedence over those appearing in this guideline.

3.0 PWGSC VALUATION REQUIREMENTS FOR RESIDENTIAL FORM REPORTS

In addition to adhering to the professional standards outlined by the organization from which he or she is designated, the appraiser must meet the *PWGSC Valuation Requirements for Residential Form Reports* outlined in this section when preparing a Residential Form Report for the Federal Government. The appraiser shall use industry recognized appraisal forms.

The *PWGSC Valuation Guidelines* are not intended to be an exhaustive list of report inclusions. It is the appraiser's responsibility to adhere to the minimum required content as outlined by the organization from which he or she is designated, and to present information as necessary to make his or her analysis clear and understood.

Note: Metric units of measurements (or metric followed by imperial in brackets) must be used throughout the report.

- 3.1 All sections of the form must be completed, even if only to enter 'Not Applicable' or 'N/A'.
- 3.2 Use either check marks or 'x's in the boxes. Much of the factual data concerning the subject property can be presented this way. Sections for which boxes are not provided are to be completed with brief descriptive notes. Most sections of the report are considered self-explanatory.
- 3.3 After the indication of a value range of the homes, mention the typical marketing period in days, for the subject property type.
- 3.4 In the appropriate section, briefly describe the 'scope' of work, sources of information and degree of effort undertaken in the research and the completion of the appraisal report.
- 3.5 In the section that comments on the condition of the property, add a sub-heading 'General Remarks', if non-existent, and briefly explain any deficiencies of the subject property.
- 3.6 Include a large colour photograph where indicated. Also give a rough building perimeter plan with outside dimensions shown. Indicate the location within the block and shape of the lot on the 'Block Plan'. Comment on any special locational factors, if any.
- 3.7 A definition of 'Highest and Best Use' must be added if not already preprinted on the form report.
- 3.8 The Cost Approach should be completed as a rough check on the value result of the Direct Comparison Approach. If the subject property is unique, with few market comparables, the Cost Approach will be of greater significance to the final estimate of value and will then have to be completed in sufficient detail to convince the reader of its accurate application. In lieu of the page provided in the form report, a detailed cost worksheet or printout incorporating both land value and depreciation is acceptable. Subject to the above comment on the uniqueness of the subject property, normally significant support for the land value is not required

since the Cost Approach is only an approximate check on the accuracy of the Direct Comparison Approach for the appraisal of single-family dwellings. Clearly state the conclusion of value by the Cost Approach at the bottom of the page.

- 3.9 Indicate all the information for the Direct Comparison Approach on the appropriate charts: comparative descriptive data for the subject and each comparable and adjustment chart for each comparable. Clearly state the conclusion of value by the Direct Comparison Approach at the end of that section.
- 3.10 Under 'Reconciliation', restate the conclusions of value derived from the approach (es) applied and briefly provide the reasoning that evaluates the approach (es) that were applied, and that leads to the subject's single estimate of value. Add the definition of market value in the appropriate section if not already pre-printed on the residential appraisal form.
- 3.11 Clearly state the final estimate of value and the effective date of appraisal. State the 'exposure time' associated with the final estimate of value. This should be consistent with the 'typical marketing period' mentioned earlier in the report. Sign and date the report and certification, clearly print the name of the appraiser and state the professional designations held by the appraiser.
- 3.12 Additional data and analysis may be appended to the form as required. As a minimum the addenda must include photographs of the comparable improved sales, a location map showing their location in relation to the subject property,

and a statement of limiting conditions and critical assumptions.

4.0 PWGSC VALUATION REQUIREMENTS FOR INDUSTRIAL/COMMERCIAL FORM REPORTS

In addition to adhering to the professional standards outlined by the organization from which he or she is designated, the appraiser must meet the *PWGSC Valuation Requirements for Industrial/Commercial Form Reports* outlined in this section when preparing a Industrial/Commercial Form Report for the Federal Government. The appraiser shall use industry recognized appraisal forms.

The *PWGSC Valuation Guidelines* are not intended to be an exhaustive list of report inclusions. It is the appraiser's responsibility to adhere to the minimum required content as outlined by the organization from which he or she is designated, and to present information as necessary to make his or her analysis clear and understood.

Note: Metric units of measurements (or metric followed by imperial in brackets) must be used throughout the report.

- 4.1 All sections of the form must be completed, even if only to enter 'Not Applicable' or 'N/A'. The only exceptions to this requirement are if the form report is used for vacant land (reference paragraph 4.6) or if the income approach is not applicable (reference paragraph 4.7).
- 4.2 Use either check marks of 'x's in the boxes to provide the descriptive data on the

subject property and on its neighbourhood. Append additional pages, if necessary, to supplement the data listed on the form report. If the appraisal is of vacant land only, indicate this on the line headed 'Description of Building'. Sections for which boxes are not provided are to be completed with brief descriptive notes. Most sections of the report are considered self-explanatory.

- 4.3 Most of the form reports contain a 'Block Plan'; indicate the location within the block and the shape of the subject lot.
- 4.4 Describe the condition of the building and list any physical or functional deficiencies, provide details for any special equipment, and list and detail site improvements.
- 4.5 In the appropriate section, briefly describe the 'scope' of work, sources of information and degree of effort undertaken in the research and the completion of the appraisal report.
- 4.6 A definition of the 'Highest and Best Use' must be added, if it is not already pre-printed on the form report.
- 4.7 The Cost Approach need only be completed for an appraisal of vacant land (land value analysis) or when the cost approach is deemed appropriate as either the primary approach to value, or as a secondary approach in support of another. A chart is normally included to allow first for descriptive data on each comparable and then for the application of dollar or percentage adjustments to account for the differences between the comparables and the subject property. Cost and depreciation data are to be summarized at the end of

that section of the form, concluding with an indicated property value. All costing worksheets or computer printouts should be included in the appendix of the report.

- 4.8 The Income Approach need only be completed when this approach is deemed appropriate as either the primary approach to value, or as a secondary approach in support of another. Normally, charts and tables are provided to facilitate each step of this approach to value, from providing market comparables in support of potential income estimate through to the capitalization process. For a market derived capitalization rate or gross income multiplier, basic data on comparable sales must be provided in support of the rate or multiplier conclusion. For a mortgage equity derived capitalization rate, state the anticipated mortgage rate and term. At least two methods of capitalization must be employed. The final estimate of value must be clearly stated at the bottom of the page.
- 4.9 The Direct Comparison Approach usually provides a table that first permits a comparison of data on the comparables to the subject, and then facilitates the application of dollar or percentage adjustments to account for any differences that exist. In most applications of a form report, it is anticipated that this approach to value will be applicable and developed.

A unit of comparison appropriate to the subject type and local market must be selected and then indicated unit of value and subject estimate of value must be clearly stated.
- 4.10 At the end of the section on the 'Direct

Comparison Approach', the value estimates from the approaches applied must be restated, and a single, final estimate of value must be concluded. The reasoning leading to this conclusion must be briefly described. Also, the appraiser must indicate the 'exposure time' that is inherent in the value estimate.

4.11 Include a large colour photo where indicated. Also give a rough perimeter plan with outside dimensions shown. All form reports should have a page that includes the appraiser's certification and the definition of market value. The appraiser should print or type his/her name, sign and date the report, and restate the effective date of the appraisal and final value estimate.

5.0 PWGSC VALUATION REQUIREMENTS FOR VACANT LAND FORM REPORTS

5.1 Forms and/or appraisal templates specifically designed to estimate the value of Residential, Commercial or Industrial vacant land in accordance with the Principle of Highest and Best Use may be used.

5.2 Follow the applicable standards outlined in section 3.0 or 4.0 above.

6.0 APPRAISER'S QUALIFICATIONS

6.1 The author may, at his or her option, include the following information:

- a. Membership in a professional real estate organization
- b. If the appraiser is a member of a professional real estate organization that has a mandatory re-certification program, the appraiser must certify that he/she has satisfied the requirements of such a program.

Appendix A

Appraisal Report Comparison Chart¹

Content Requirements		Narrative Report	Short Narrative Report	Form Report
Part I Introduction				
3.1	Title Page	Include	Include	-
3.2	Letter of Transmittal	Include	Include	-
3.3	Table of Contents	Include	Include	-
3.4	Photographs	Include	Include	Include
3.5	Executive Summary	Include	Include	-
Part II Factual Data				
3.6	Definition of the Appraisal Problem	State	State	State
3.7	Scope of Work	Describe	Describe	Describe
3.7	Assumptions and Limiting Conditions	State	State	State
3.8	Identification of the Property	State	State	State
3.9	Regional and City Data	Describe	Summarize	State
3.10	Neighbourhood Data	Describe	Summarize	State
3.11	The Site	Describe	Summarize	State
3.12	Services Available to the Site	Describe	State	State
3.13	The Building (s)	Describe	Summarize	State
3.14	Site Improvements	Describe	Summarize	State
3.15	Assessments and Taxes	Describe	State	State
3.16	Sales History	Describe	Summarize	State
3.17	Encumbrances on Title	Describe	Summarize	State
3.18	Lease Details	Describe	Summarize	State (As required)
3.19	Land Use Controls	Describe	State	State
Part III Analysis and Conclusion				
3.21	Highest and Best Use	Describe	State	State
3.21	Appraisal Analysis	Describe	Summarize	State
3.22	Land Value as if Vacant	Describe	Summarize	State
3.23	Cost Approach	Describe	Summarize	State
3.24	Income Approach (es)	Describe	Summarize	State (As required)
3.25	Direct Comparison Approach	Describe	Summarize	State
3.26	Reconciliation and Final Estimate of Value	Describe	Summarize	State
3.27	Exposure Time Analysis	Describe	Summarize	State
3.28	Certification	Include	Include	Include
Part IV Supporting Data				
3.30	Displays	As Required	As Required	As Required
3.31	Addenda	As Required	As Required	As Required
3.32	Indexes	Include	Include	Include
3.33	Appraiser's Qualifications	Include	Optional	Optional

¹ Definitions:

Describe – Include all reasoning, analysis, data and opinions in support of this section

Summarize – Include main points in a succinct manner, with supporting information in the assignment file

State – Include statement of pertinent facts, with supporting information in the assignment file

Valuation Guidelines

1B4 - Update Reports



Office of the Chief Appraiser



Public Works and
Government Services
Canada

Travaux publics et
Services gouvernementaux
Canada

Canada

VALUATION GUIDELINES

Update Reports

PURPOSE

This guideline provides the policy requirements related to updating existing appraisal reports.

TABLE OF CONTENTS

1.0	Preface.....	2
2.0	Policies.....	3
3.0	Valuation Standards.....	4

1.0 PREFACE

- 1.1 The Federal Government makes decisions on the purchase, lease, development, transfer, and expropriation of real property based in part, on real property appraisals. Real property appraisals used by the Federal Government must therefore meet high standards of documentation, thoroughness and reasoning.
- 1.2 Provincial, national, and international real estate appraisal organizations have set high professional standards for their members. As a result, PWGSC consulted with and developed its real property valuation standards to meet the minimum content adopted by the major organizations of professional appraisers. In the preceding context PWGSC signed a Memorandum of Understanding with each the *Appraisal Institute of Canada (AIC)* and *l'Ordre des évaluateurs agréés du Québec (OEAQ)*.
- 1.3 PWGSC generally requires a Narrative Appraisal Report (1B1), a Short Narrative Appraisal Report (1B2), a Form Appraisal Report (1B3) or an Update Report (1B4). The prominent difference between these reporting formats is the level and depth of information and analysis provided in the report.

2.0 POLICIES

- 2.1 When preparing an Update Appraisal Report, the appraiser must, in addition to adhering to the professional standards outlined by the organization from which he or she is designated, meet the *PWGSC Policies and Valuation Guidelines* outlined in sections 2.0 and 3.0 of this guideline respectively.
- 2.2 The report must be documented and supported so as to convince an impartial reader of the soundness of the conclusions. The material should be set forth as concisely as possible, in order to achieve effective communication with the reader while conserving the reader's time.
- 2.3 The appraiser must ensure that his or her appraisal is impartial, objective and does not illegally discriminate or contribute to illegal discrimination through subjective or stereotypical assumptions.
- 2.4 If, as by prior agreement between the appraiser and PWGSC, the report prepared does not meet the minimum content requirements as set out by his or her respective organization, the report is considered a 'limited' or 'restricted' appraisal. The appraiser must make this fact clear to the reader so as not to mislead, including reasons for departure from the usual minimum content required as well as the effect that this departure may have on the final value conclusions of the report.
- 2.5 If certain information is not obtainable, restricted due to legislation, or considered confidential under privacy constraints, a clear statement must be made in the report as to why it was excluded and how it was

verified, as well as that the information represents an arms length transaction. All information in the appraisers file must be available for viewing by the client.

appearing in this guideline.

- 2.6 The Federal Government must retain copyright to the report, and be given authorization to rely on the report for the purpose(s) stated.
- 2.7 It is not reasonable for any person other than the Federal Government to rely upon the report without first obtaining the written authorization of both the Chief Appraiser or designate, as well as the appraiser responsible for the report.
- 2.8 The appraiser designated in the *Contract for Services* shall be no one other than the author (original appraiser or individual approved under contract from the firm) of the original report, and shall be the only signatory of the update report, assuming full responsibility for its contents and conclusions
- 2.9 The appraiser designated in the *Contract for Services* may rely on the original report which is subject to the update, however, re-inspection of the subject property is recommended.
- 2.10 The report is subject to review for compliance with the *Contract for Services*, as well as the *PWGSC Policies and Valuation Standards* appearing herein. This must be completed to the satisfaction of the Chief Appraiser or designate.
- 2.11 The Chief Appraiser or designate holds the authority to revise these guidelines as required on a case-by-case basis. Therefore, instructions included in the *Contract for Services* shall take precedence over those

3.0 PWGSC VALUATION STANDARDS

- 3.1 The update report format need not comply with the format of the original report. For example, often an original report is done in the narrative appraisal report format and the update is done as a short narrative appraisal report.
- 3.2 The update report must include a cross-reference to the original report and to any previous updates. The update report must expressly incorporate by reference all applicable background data, market conditions, assumptions and limiting conditions that have remained unchanged and that were contained in the original report.
- 3.3 In the update, the appraiser must address any changes in market conditions and the status of the subject since the effective date of the original appraisal or prior update, and analyze the effect of these changes in arriving at a current value estimate for the subject.
- 3.4 Unless otherwise specified in the report, all approaches to value developed in the original appraisal must be updated. The data used in the original approaches that is applicable to the updated appraisal must be reanalyzed, along with any new data.

The appraiser must clearly state that the update report can only be relied upon as an extension of the original report and any prior updates. Furthermore, the appraiser should identify if previous updates have been carried out and clarify that the current update does “update” the original report.

- 3.5 Metric units of measurement (or metric followed by imperial in brackets) must be used throughout the report.
- 3.6 The following is the recommended content for an update report:
- .1 Introduction
- Title page
 - Expanded Letter of Transmittal with reference to or excerpts from the original appraisal concerning the definition of value, the date of the value estimate, the property rights appraised, the approaches used, the reconciliation and value conclusions, etc.
 - Specific cross-reference linking the update to the original report and to any previous updates
 - Scope
 - Certification
 - Limiting Conditions and Critical Assumptions
- .2 Body of Report
- Identification of the real estate
 - Changes in market conditions since the original appraisal or previous update. This includes assessed value, taxes, etc.
 - Changes in the subject property since the original appraisal or previous update. This includes repairs, new leases, etc.
 - Other information pertinent to the update.
 - Update on Highest and Best Use.
 - Update on each appraisal approach applied in the original appraisal.

Valuation Guidelines

1C1 - Expropriation



Office of the Chief Appraiser



APPRAISAL GUIDELINES

Expropriation

PURPOSE

In order to comply with the *Expropriation Act*, which requires the valuation of the separate interests in a property, the standard self-contained appraisal (narrative) format must be adjusted.

TABLE OF CONTENTS

1.0	Preface	1
2.0	Policy	1
3.0	Expropriation Appraisal Report - General	5
4.0	Partial Taking Report Format	6
5.0	Valuation of Interests	7
6.0	Special Economic Advantage	8
7.0	Equivalent Premises	9

APPENDICES

- A Security Interest
- B Value of Other Interests (Easements, Restrictive Covenants, etc.)
- C Equity Interest
- D Leasehold Interest

1.0 PREFACE

- 1.1 The policy of the Department in respect to the expropriation of property is one of full and open communication with the owner.
- 1.2 The Expropriation Act requires that compensation be based on an appraisal report, which must be given to the owner. In line with the Department's policy, **the report must contain all the data and analysis leading to the conclusions of the appraiser**. At one time it was customary for the appraiser to limit the analysis content of the report in order to protect himself in the event that the matter proceeded to litigation. This practice is no longer viable.
- 1.3 In a decision in respect to the Ontario Act, the Ontario Supreme Court ruled that the owner must be able to make a decision based on the report; the same is true with the Federal Act. Thus, **the owner must be given all the facts**.
- 1.4 A well-documented report can instill in the owner a greater degree of satisfaction with the offer of compensation, and can eliminate many of the differences that might otherwise lead to lengthy and expensive litigation in the Federal Court.

2.0 POLICY

- 2.1 In order to comply with the Expropriation Act, which requires the valuation of the separate interests in a property, the self-contained appraisal report (narrative report) format must be adjusted. A statement of the various interests must be included. After indicating the market value of the property in the main body of the report, the separate interests can then be dealt with in the addenda of the self-contained appraisal report (narrative report) (see Appendices A- D for sample forms). The Department will send the main report and relevant addenda to the owner of the interest concerned. Obviously a one-page addendum will normally be enough to deal with any security interest, whereas the equity and/or leasehold interest addenda may be relatively substantial.
- 2.2 The appraisal is to be based on a market data analysis utilizing all pertinent appraisal techniques.
- 2.3 The **effective date of the appraisal is the date of registration of confirmation of expropriation**, unless otherwise instructed.
- 2.4 The market value definition applicable under the Federal Expropriation Act is as follows: **“the amount that would have been paid for the interest if, at the time of its taking, it had been sold in the open market by a willing seller to a willing buyer”**.
- 2.5 Interest in land includes lessee, security holders, or any person having any right, estate or interest in the property: each separate interest is to be valued. Public Works and Government Services Canada will pass on to the appraiser all available information as to known interests in the subject property, and the Department of Justice will be asked to assist the appraiser if necessary. In addition, the appraiser must make every effort to identify the interests that exist and, where there are occupants without a formal lease, such as

month-to-month tenancies, these too, should be reported by the appraiser.

2.6 Where the owner of an interest occupied the land when the notice of confirmation was registered and as a result it is necessary for him to give up occupation of the land, Section 26(3) of the Act states that the value of the expropriated interest is the greater of:

- (a) the market value of the interest in its highest and best use (if other than existing use); **or**,
- (b) the market value, as if the existing use were the highest and best use.

Thus, the appraiser will be required to estimate and report on the value of both (a) and (b).

Where it is clearly evident that the value based on either (a) or (b) is far in excess of the other, then the appraiser will so state and give reasons under Analysis of Highest and Best Use in the self-contained appraisal report (narrative report). After authorization from the Department, the appraiser may then proceed with a single valuation under (a) or (b).

2.7 The appraiser will also:

- (a) identify and report on any element of **special economic advantage** incidental to the owner's occupation of the land, and
- (b) if specifically requested to do so, report on the costs, expenses and losses arising out of or incidental to the owner's **disturbance** including moving to other premises.

In dealing with special economic advantage and/or disturbance, the appraiser should contact the person who authorized the assignment and agree on specific terms and conditions of reference. It may be appropriate for the appraiser to obtain other expert opinion on these matters but before doing so, he must obtain authority to engage and pay such other expert.

2.8 The appraiser will report and document the **equivalent premises** concept when and if necessary. As soon as it becomes apparent that this concept will apply, the appraiser should contact the person who authorized the assignment and agree on equivalent area to be considered and type of data to be supplied in report.

2.9 The appraiser, when valuing the **security interest(s)** of an expropriated property, will also document information on the prevailing rates of interest for an equivalent security in the community in which the expropriated interest is situated.

2.10 The appraiser, when valuing any **leasehold interest**, will carefully consider:

- (a) the terms of the lease and term remaining on the date of confirmation, so as to calculate the capitalized value of any contract rent advantage;
- (b) any investment in the land by the owner of the leasehold interest and nature of any business carried on by him thereon; and,
- (c) the reasonable expectancy of renewal of the lease, so as to calculate the degree and amount of disturbance, if specifically requested to do so.

2.11 The appraiser will value the **security interest** (mortgage) computed as the principal amount outstanding as of the date of confirmation plus three months' interest; and if the property is subject to more than one security interest, each shall be determined in order, but in no case shall the sum of the security interests exceed the value of the whole as if it had not been subject to any security interest. (It may be necessary for the appraiser to consider Equivalent Premises, depending on the resultant equity position).

2.12 **If a limited interest or a partial taking** is expropriated, the value assigned to the security interest will be in the same proportion that the value of the land taken bears to the whole of the land.

2.13 The appraiser, in estimating the value of an expropriated interest, shall not consider:

- (a) any sale, lease or other transaction concerning the expropriated interest that was entered into after the registration of the notice of intention to expropriate (note that “entered into” is considered to mean at the date of an executed contract);
- (b) any anticipated or actual use by the Crown of the land at any time after the date of notice of the intention to expropriate was registered (except as in 2.14 below);
- (c) any increase or decrease in the value of the interest resulting from the anticipation of expropriation by the Crown; or,
- (d) any increase in value of the interest as a result of an illegal use.

2.14 Subsection 25(1) of the Act indicates that compensation for partial taking is calculated in two parts.

Part 1: The value of an expropriated interest at the time of its taking [Paragraph 25(1) (a)]; and,

Part 2: The amount of any decrease in value of the remaining property of the owner determined as provided in Section 27.

This precludes the use of the **before and after method** as normally carried out. The benefit of this is to the owner because the value of the land taken, regardless of any betterment to the remaining lands, is always paid.

The method of appraisal shall be as follows:

Part 1: The actual part taken must be valued on its own. If marketable, the market value as an individual parcel as per Subsection 26(2) or 26(3), if not marketable on its own, then it is valued at the greater of, the value it contributes to the whole property, or the value of equivalent land.

Part 2: The value of the **severance damages** under Subsection 25(1)(b) and Section 27 is then calculated by taking the value of the total interest before the taking, minus the previously calculated value of the part taken and the value of the interest in the remaining land. Thus in valuing the severance damage, the Act uses a **modified before and after calculation**.

The total loss in value is then the sum of the two parts.

It will be noted that Subsection 27(2) of the Act provides that in determining the value of the remaining interest in land, any increase or decrease in the value of the remaining interest resulting from the construction or use or anticipated construction or use of any public work on the land shall be taken into account. However it is pointed out that any benefits or advantages to the remaining land are only set off against damages for severance or injurious affection to the remaining land, and thus is automatically accounted for in Part 2 of the calculations.

2.15 The report is sent by the Department to the owner supporting an offer of compensation; therefore the thoroughness and accuracy of statements are absolutely imperative. Particular care should be taken to ascertain all matters of fact, such as details of index sales, zoning and availability of services, etc.

The appraiser is urged to clearly indicate any limiting factors and circumstances

affecting the consideration of the problem. Recognizing the pressure of time in these assignments, the appraiser may wish to point out that certain assumptions are subject to change if more information is available at a later date.

- 2.16 The appraiser must not attempt to fix compensation, i.e., to add percentages to the value for any purpose whatsoever.
- 2.17 Section 37 of the Act authorized the appraiser to make an inspection of the property and, for this purpose, a letter will be provided to identify him to the expropriated party. The appraiser must make arrangements with the owner for a suitable time to inspect the property.

3.0 EXPROPRIATION APPRAISAL REPORT - GENERAL

- 3.1 The minimum requirements for an appraisal report of an expropriated property are the same as for the self-contained appraisal (narrative) format with additional information provided as per this Guideline, and with the following adjustments.

3.2 For a Total Taking

The market value of a property in its highest and best use according to the self-contained appraisal (narrative) format requirements. A second valuation may be required of the market value of the property in its existing use plus special economic advantage to the occupant; where the owner is in occupation and is required to give up same, and the existing use is not the highest and best use.

3.3 For a Partial Taking

Part 1. The market value of the taking in its highest and best use as per the self-contained appraisal (narrative) format requirements. A second valuation may be required of the market value of the taking in its existing use plus special economic advantage to the occupant in the situation where the owner is in occupation and is required to give up same, and the existing use is not the highest and best use.

Part 2. To estimate the decrease in value, if any, of the remaining property, the modified before and after method is applied as per section 2.14 of this guideline.

4.0 PARTIAL TAKING REPORT FORMAT

(Refer to the guideline on the Self-Contained Appraisal (narrative) Format for the required standards for each of the following sections.)

Introduction

- 4.1 Title Page
- 4.2 Letter of Transmittal
- 4.3 Table of Contents
- 4.4 Photographs
- 4.5 Summary of Important Facts and Conclusions
- 4.6 Statement of Limiting Conditions and Critical Assumptions

Factual Data

- 4.7 Definition of the Appraisal Problem (See Note A)
- 4.8 Scope
- 4.9 Identification of the Property
- 4.10 Area and City Data
- 4.11 Neighbourhood Data
- 4.12 History
- 4.13 Mortgage Data

Before the Taking

- 4.14 Site Data
- 4.15 Services Available to the Site
- 4.16 Description of the Buildings
- 4.17 Site Improvements
- 4.18 Assessed Value and Annual Taxes
- 4.19 Lease Details
- 4.20 Land Use Controls (Zoning, etc.)

Analysis and Conclusion

- 4.21 Analysis of Highest and Best Use
- 4.22 Appraisal Analysis
- 4.23 Land Value as if Vacant
- 4.24 Estimated Value by the Cost Approach
- 4.25 Estimated Value by the Income Approach
- 4.26 Estimated Value by the Direct Comparison Approach
- 4.27 Reconciliation and Final Estimate of Value
- 4.28 Exposure Time

After the Taking

Where no change in information occurs in the following sections, it is unnecessary to repeat previous information. A statement of no change should be made.

If the taking results in more than one remainder parcel, each remainder parcel must be treated separately and with the following completed:

Factual Data

- 4.14 Site Data (See Note B)
- 4.15 Services Available to the Site
- 4.16 Description of the Buildings
- 4.17 Site Improvements
- 4.18 Assessed Value and Annual Taxes
- 4.19 Lease Details
- 4.20 Land Use Controls (Zoning, etc.) (See Note C)

Analysis and Conclusion

- 4.21 Analysis of Highest and Best Use (See Note D)
- 4.22 Appraisal Analysis
- 4.23 Land Value as if Vacant
- 4.24 Estimated Value by the Cost Approach
- 4.25 Estimated Value by the Income Approach
- 4.26 Estimated Value by the Direct Comparison Approach
- 4.27 Reconciliation and Final Estimate of Value
- 4.28 Exposure Time

Summary

Value(s) of Part(s) Taken	_____
Value of Total Interest	_____
before the Taking	_____
Less: value of remainder	_____
Difference before and after	_____
Less: Value of Part(s) Taken	_____
Severance damages	_____
Total Value Reported	=====

- 4.29 Certification

Part IV - Supporting Data

- 4.30 Displays (See Note E)
- 4.31 Addenda
- 4.32 Indexes
- 4.33 Appraiser's Qualifications

Note A: The "Definition of the Appraisal Problem" encompasses the purpose and function, e.g., purpose of the appraisal is to estimate the loss in market value to the subject property due to the taking of a part of the property for (give proposed use, such as 'a new highway'), by the (state the acquisition authority, such as the Department of Transport).

Note B: The "Site Data" should provide the area of the property before the taking, the area of the part taken and the area of the remainder parcel(s).

Note C: Under "Land Use Controls", consideration should be given to any possibility of zoning change (which must be confirmed by the appropriate authorities) as a result of works to be done on the part taken and changes in the neighbourhood.

Note D: For "Highest and Best Use", careful consideration must be given to change of use caused by the works to be done on the part taken, and any zoning change as per Note C.

Note E: In the "Displays", it is important that the dimensions, area, shape, frontage, access and any other factors of the Remainder Parcel(s) be clearly described, using wherever possible, a detailed plan or at least a sketch plan.

5.0 VALUATION OF INTERESTS

In accordance with the Act, each interest will be valued separately as outlined below:

- 5.1 Value of Security Interests.
- 5.2 Value of Other Interests (and Costs if requested to do so).
- 5.3 Value of Equity Interest (and Costs if requested to do so).
- 5.4 Value of Leasehold Interest (and Costs if requested to do so).
- 5.5 Identify and report on elements of Special Economic Advantage to the owner, if applicable.
- 5.6 Report on Equivalent Premises concept, if applicable.
- 5.7 Report on prevailing rates of interest.
- 5.8 Summary of value of all interest (and Costs if requested to do so).
- 5.9 Justification of cost items (e.g., Business Disturbance Relocation, if requested to report on Costs).

6.0 SPECIAL ECONOMIC ADVANTAGE

6.1 Section 26, subsection (3), paragraph (b) of the Act provides that an owner, in occupation of any land at the time the Notice of Confirmation was registered, may be entitled to either the market value of his/her interests in its highest and best use **or** the aggregate of the market value as if the existing use were the highest and best use plus costs and expenses and losses arising out of or incidental to the owner's disturbance, including moving to other premises; plus the value to the owner of any element of special economic advantage to him/her arising out of or incidental to his/her occupation of the land, to the extent that no other provision is made by this paragraph for the inclusion thereof in determining the value of the expropriated interest.

6.2 Special care must be exercised in applying this provision: the costs and expenses and losses arising out of or incidental to the owner's disturbance may cover what might otherwise be regarded as special economic advantage. Since it is difficult to generalize in such an involved matter, the following examples are given to illustrate the type of situation where an element of special economic advantage may occur.

(a) **Non-Conforming uses:** an owner may be living in a residence and using the property for business purposes as well. In some areas, the planning authority does not permit a subsequent owner to continue the non-conforming use, nor is the non-conforming owner permitted to re-establish the non-conforming use on another property. In these circumstances, the market may not fully reflect the value in use, and a calculation should be made on the economic advantage to the owner of this dual use.

(b) **Where special economic advantage is being enjoyed:** where business premises are used for purposes requiring extensive parking facilities, and the expropriated property had the benefit of using a nearby parking lot available to them when not required by the expropriated business - a social club using the parking lot of an office building in the evening; an office or retail store using a parking lot of a social club or movie theatre during the day. Obviously, the owner of the expropriated property is enjoying a special economic advantage which he will probably lose when he relocates. In some cases, municipal by-laws on ratio of parking space to building area will force the expropriated owner to buy a larger site when he relocates. This then must be taken into account and a calculation made as to the monetary value of this economic advantage.

7.0 EQUIVALENT PREMISES (APPLICABLE ONLY TO RESIDENCES)

- 7.1 Section 26, subsection (8) of the Act provides that where an expropriated interest was being used by the owner for the purposes of his/her residence and the value of the interest otherwise determined under this section is less than the minimum amount sufficient to enable the owner to relocate the residence in or on premises reasonably equivalent to the premises expropriated, there shall be added to the value otherwise determined the amount by which that minimum amount exceeds such value.
- 7.2 The principle involved is most clearly illustrated in urban renewal schemes or similarly large acquisition schemes whereby smaller than standard, older or perhaps poorer than standard homes are to be removed from the community and no such properties of similar value are available within that community. For example, similar homes may exist in the community but because they currently sell at a higher price than the value of the subject (perhaps because these similar homes are in a better district), then the minimum amount of difference should be added to the value of the expropriated interest.
- 7.3 It is difficult to generalize about the extent to which this provision may apply, especially in geographic terms. Judgement must be used in each instance but generally it appears to be the intent that an owner should not have to move away from his present community--i.e., moving from one part of a city to another would be reasonable, but not to another city. Similarly, in rural areas the owner should not be forced to move to another district.
- 7.4 The Equivalent Premises Provision applies to any residence (Residence means a dwelling, a home). Thus, this provision will apply to such properties as a farmhouse or to the residential unit of a combination business and living premises, and to leased residences.
- 7.5 In order to report the equivalent premises concept, the appraisal report will require some changes in format. The purpose of the appraisal will be to estimate the minimum amount of money needed for the owner to acquire reasonably equivalent premises. Market data, fully documented, should be utilized. The appraiser will document sales and listings of reasonably equivalent properties which were available on the market as of the applicable date. The normal adjustment process used in the Direct Comparison Approach is not applicable. The appraiser will identify physical and functional differences between the indexes and subject property, and express an opinion in respect to their relative desirability. In looking for equivalent properties, the appraiser will consider properties that are within a reasonable range of equivalency to the subject property. It is not necessary for the property to be exactly similar or to be a replacement in detail of the expropriated property.
- 7.6 A federal court judgement states that ... reasonably equivalent to the premises expropriated does not mean identical premises ... but ... in or on premises which are corresponding in function to that expropriated, but not exceeding the limit prescribed by reason or not excessive. The section does not require the court to embark on an eye for an eye comparison.
- 7.7 In all cases, Subsection 26(8) requires that an amount, to be determined, is to be added to the value of the interest of the expropriated property. Thus, at all times an appraisal report in respect to Subsection 26(8) must be in addition to the appraisal report of the market value of the interest as of the effective date of the appraisal.

APPENDIX A

Security Interest

Name of Property Owner: _____

Address of Property Owner: _____

Location and Legal
Description of Security: _____

Type of Security: _____

Name of Security Holder: _____

Address of Security Holder: _____

Terms and Conditions of Security: (Copy of document to be attached)

Security Interest:

Principal balance only, outstanding as of _____ \$ _____ **
(Date*)

Add 3 months' interest @ *** _____ % \$ _____

Add accrued interest from _____ to _____ \$ _____
(Date) (Date*)

TOTAL: \$ _____

Signature of Appraiser

Date of Signature

* Date of confirmation, if known.

** Amount to be reflected in Appendix C.

*** Prorated rate of interest of existing mortgage.

APPENDIX B

Value of Other Interests

(EASEMENTS, RESTRICTIVE COVENANTS, ETC.)

Name of Property Owner: _____

Address of Property Owner: _____

Location and Legal
Description of Property: _____

Name of Holder of Interest: _____

Address of Holder of Interest: _____

Purpose, Location and Description of Interest:
(Copy of document and plan or sketch to be attached)

Value of Subject Interest as of _____ : \$ _____
(Date)

Signature of Appraiser

Date of Signature