ITEM 5 MANAGER'S REPORT NO. 67 COUNCIL MEETING Oct. 15/74

Re: Assessed Values of Industrial Properties

On September 3, 1974, Council directed that a report from the Municipal Treasurer on property taxation be referred to the U.B.C.M. for consideration. A question during discussion of the report pertained to the manner in which the Municipality determines market value for assessment purposes on major industrial establishments. Comments on this matter are contained in the following report from the Municipal Assessor.

This is for the information of Council.

TO: MUNICIPAL MANAGER

DATE: OCTOBER 9, 1974

FROM: MUNICIPAL ASSESSOR

RE: ASSESSED VALUES OF INDUSTRIAL PROPERTIES

The following is in reply to a request by Council for a report on how value for assessment purposes is determined for industrial establishments.

To assist in an appreciation of what is involved, a review of the total process of valuation for assessment purposes is included.

Assessments are required to reflect actual value, and actual value is usually interpreted by the courts to be the market value.

There are three recognized methods of establishing market value - the market data approach, the income approach and the cost approach.

The market data approach is the preferable one as it involves a review of sales of comparable properties. It is especially useful when there are a large number of sales occurring within a limited period of time.

The income approach is predicated on the fact that the purchaser of an income producing property normally pays a price which is related to the income that can be expected from rental of the property. It is especially useful when there are relatively few sales but where an established income pattern of comparable properties exists.

The cost approach involves a determination of the replacement cost and depreciation of existing buildings. It is a method of valuation used for all buildings in the Municipality and is an essential part of the assessment process as separate

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assessed values for land and buildings must be produced for each improved property and the other two approaches to value (market data and income) are only capable of producing the total value of any improved property.

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It is normal practice to use as many of the three approaches to value as practicable when establishing an assessed value. Thus, for single family residences the income approach is of no use as few are rented. Instead, for the common types of residences the market approach is useful for establishing the value of the total package and the cost approach is useful for checking the value of the building. For the less common residential properties which sell infrequently only the cost approach is useful for establishing the value of the house.

The use of the market approach on sales of vacant lots is the principal way of establishing the value of all types of land. An alternative is to establish the value of an improved property which sells by the market approach and then subtract the value of the buildings determined by the cost approach. The remaining value is then attributed to the land.

For revenue producing properties, such as the common types of apartments and warehouses, the income approach and the cost approach are both useful, while only the cost approach is useful for the less common rental buildings.

A number of commercial and industrial properties are constructed and used for special purposes (milk processing plants, oil refineries, can manufacturing plants, etc.), are rarely sold, and often are owned by the occupier. Thus, it is not practical to use the market or income approach to establish the total value of these properties. Instead, the cost approach is used for the building values and the market approach, applied to similar vacant parcels, for the value of the land.

There is a substantial amount of well researched data available about different types of construction to provide current replacement costs and depreciation schedules so the cost approach results for these plants are relatively uniform and reproducible. The valuation of land on which these special purpose plants are located, however, is more of an art as rarely can comparisons be made with lots which are similar in size, location, zoning etc. and to obtain as much background as possible for such valuation it is common practice to search well beyond the municipal boundaries for evidence of value.

Goode

MUNICIPAL ASSESSOR

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