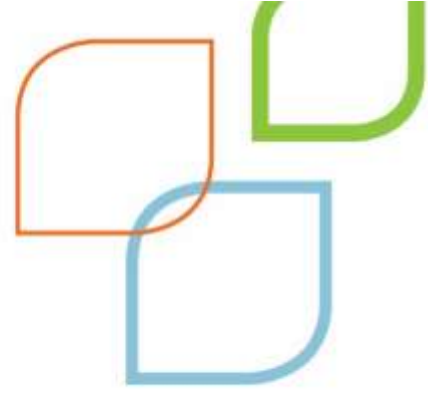




MUNICIPAL  
PROPERTY  
ASSESSMENT  
CORPORATION



# **METHODOLOGY GUIDE**

VALUING LANDS IN TRANSITION IN ONTARIO

**Valuation Date: January 1, 2016**

**August 2017**



**MUNICIPAL PROPERTY ASSESSMENT CORPORATION**

August 22, 2017

The Municipal Property Assessment Corporation (MPAC) is responsible for accurately assessing and classifying property in Ontario for the purposes of municipal and education taxes.

In Ontario's assessment system, MPAC assesses your property value every four years. In 2016, MPAC updated the value of every property in the province to reflect the legislated valuation date of January 1, 2016.

MPAC is committed to provide Ontario property owners, municipalities and all its stakeholders with the best possible service through transparency, predictability and accuracy in values. As part of this commitment, MPAC has defined three levels of disclosure of information in support of its delivery of the 2016 Assessment Update. This Methodology Guide is the first level of information disclosure.

This guide provides an overview of the valuation methodology undertaken by MPAC when assessing lands in transition for the update ensuring the methodology for valuing these properties is well documented and in alignment with industry standards.

Property owners can access additional information about their own properties through [aboutmyproperty.ca](http://aboutmyproperty.ca). Login information for [aboutmyproperty.ca](http://aboutmyproperty.ca) is provided on each Property Assessment Notice mailed in 2016. Additional information about MPAC can be accessed at [mpac.ca](http://mpac.ca).

Sincerely,

A handwritten signature in black ink, appearing to read "Rose McLean", is enclosed within a thin black rectangular border.

Rose McLean, M.I.M.A.  
President and Chief Administrative Officer

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## 1.0 Introduction

The Municipal Property Assessment Corporation (MPAC) – mpac.ca – is responsible for accurately assessing and classifying property in Ontario for the purposes of municipal and education taxation.

In Ontario, property assessments are updated on the basis of a four-year assessment cycle. In 2016, MPAC updated the assessments of Ontario’s nearly five million properties to reflect the legislated valuation date of January 1, 2016. Assessments updated for the 2016 base year are in effect for the 2017–2020 property tax years.

The last assessment update was based on a January 1, 2012, valuation date. Increases between the 2012 assessed value and 2016 assessed value are phased in over a four-year period. Any decreases in assessment are applied immediately.

It is important to ensure that the valuation methodology applied is capable of providing a realistic estimate of current value at the relevant valuation date, which, in turn, enables all stakeholders to understand the valuation process and have confidence in the fairness and consistency of its outcome.

This Methodology Guide has been prepared for the benefit of MPAC assessors, property owners and their representatives, municipalities and their representatives, Assessment Review Board members, provincial officials and the general public.

This guide outlines the valuation process, including steps that require appraisal judgment. It is incumbent upon the assessor to make informed decisions throughout the valuation process when arriving at estimates of current value.

### 1.1 Properties Covered by This Methodology Guide

This Methodology Guide applies to lands in transition in Ontario, including properties located in designated employment areas.

Lands in transition include both vacant development land (e.g., land designated in an official plan for future residential development) and improved properties where the current value is represented by an alternate use.

Examples of lands in transition valued by MPAC are:

- non-serviced, pre-draft plan, future residential subdivisions
- serviced townhouse blocks

- serviced lands zoned for multiple residential dwellings
- non-vacant development sites of varying types, usually with existing structures, where current use is ongoing but official plan and/or zoning allows for alternate uses

The following MPAC property codes are used to identify the various types of lands in transition in Ontario:

- **112** – multi-residential vacant land
- **113** – condominium development land – residential (vacant lot)
- **114** – condominium development land – non-residential (vacant lot)
- **115** – lands in transition (value based on alternate use)
- **125** – residential development land
- **127** – townhouse block – freehold units

It should be noted that these are general guidelines. In certain areas of the province, additional property codes may be identified as lands in transition.

Property codes are a tool for organizing files at MPAC. Many properties have characteristics of more than one property code. Only one code may be chosen for administrative purposes.

An assessor may also make reference to additional Methodology Guides for properties that do not fall precisely within the description of one of the property codes listed above. For example, when assessing land that has multiple uses or tenants such as shopping centres, industrial properties, office buildings or multi-residential properties, the assessor may refer to additional guides.

## **1.2 Properties Not Covered by This Methodology Guide**

The valuation of small vacant residential lands and vacant land with principal zoning that is commercial or industrial are included in separate reports. These properties are identified with the following property codes:

- **100** – vacant residential land not on water
- **105** – vacant commercial land
- **106** – vacant industrial land

Further information on how MPAC determines the value of these properties is available in the Market Valuation Report for the applicable market area (residential, commercial or industrial properties).

### 1.3 Legislation

The main legislation governing the assessment of properties in Ontario for property tax purposes is contained in the *Assessment Act*.<sup>1</sup>

The Act contains important definitions and states what property is taxable and how it should be valued. Section 19(1) of the Act requires that land be assessed at current value, which is defined to mean, in relation to land, “the amount of money the fee simple, if unencumbered, would realize if sold at arm's length by a willing seller to a willing buyer.”

### 1.4 Classification

MPAC’s role is to accurately assess and classify all properties in Ontario. The classification of a property will determine the tax rate to be applied by the municipality or other taxing authority. The classification of property is set out in Ontario Regulation 282/98 of the Act.

Vacant land is classified based on principal zoning in the residential, multi-residential and industrial tax classes and, by default, in the commercial class. Vacant land is land that has no buildings or structures and is not being used. Vacant land is also land on which a building or structure is being built but has not yet been used or is substantially unusable. For more information on vacant land, see section 1 of Ontario Regulation 282/98.

All non-vacant properties are classified according to their use. For information on farmland awaiting development, see the Market Valuation Report about valuing agricultural land in Ontario.

### 1.5 The Use of This Methodology Guide

This Methodology Guide is intended to:

- Ensure MPAC’s assessed values for these properties are fair, accurate, predictable and transparent.
- Provide direction to assessors and clear explanations to municipalities, taxpayers and Assessment Review Board members.

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<sup>1</sup> *Assessment Act*, R.S.O 1990, c. A.31: <https://www.ontario.ca/laws/statute/90a31>.

- Ensure that MPAC’s methodology for valuing these properties is well-documented and aligns with industry standards.
- Explain the thought process and decision-making process that an assessor should undertake to apply the valuation methodology.
- Ensure a consistent approach to valuing these property types.
- Support MPAC assessors in conducting their due diligence in:
  - applying Ontario’s legislation and regulations.
  - adhering to industry standards for market valuation in a mass appraisal environment.

In addition, this Guide is designed to assist assessors in the identification of potential lands in transition – properties where the current value is represented by an alternate use.

It should be noted that this Methodology Guide is not intended to be a substitute for an assessor’s judgment in arriving at a market value–based assessment (i.e., current value) for a particular property. However, given that the Methodology Guide explains industry standards for property assessment, conforms to valuation industry norms and adheres to provincial legislation and regulation, MPAC assessors are expected to follow the procedures in the Methodology Guide and be able to justify any deviations from it.

### 1.6 Consultation and Disclosure

MPAC is committed to providing municipalities, taxpayers and all its stakeholders with the best possible service through transparency, predictability and accuracy. In support of this commitment, MPAC has defined three levels of disclosure as part of its delivery of the 2016 province-wide Assessment Update.

- **Level 1** – Methodology Guides explaining how MPAC approached the valuation of particular types of property
- **Level 2** – Market Valuation Reports explaining how the methodology outlined in Level 1 has been applied at the sector level for the purposes of each assessment
- **Level 3** – Property Specific Valuation Information available to property taxpayers, their representatives and municipalities

## 2.0 The Valuation Process

Assessors determine the value of lands in transition using the direct comparison approach. This approach involves the analysis of sales to determine the factors influencing value.

The direct comparison approach estimates the current value of a subject property by adjusting the sale price of comparable properties for differences between the comparable properties and the subject property.

The valuation process begins with a determination of the highest and best use of the subject property. While the current use of a property is typically its highest and best use, this may not be the case in areas undergoing intensification.

In an individual property appraisal, the highest and best use analysis has reference to the value of the property based on its current use and its highest and best use. In summary, the appraisal test for determining highest and best use involves a consideration of what is:

- **Physically possible** – This refers to the legal, physically probable uses of the subject property that can be accomplished on the site considering the size, shape, topography, soils and environmental conditions.
- **Legally permissible** – This refers to the possible uses of the subject property legally permitted by land use controls, any existing leases, easements, deed restrictions or subdivision controls, covenants and restrictions or any other public or private limitations.
- **Financially feasible** – This refers to the legal, physically possible uses of the subject property that will produce a positive net financial or economic return to the owner of the site.
- **Maximally productive** – This refers to the use that satisfies the three criteria listed above and that produces the highest value.

In a mass appraisal, assessors determine the highest and best use of properties with reference to property characteristics, planning policies, zoning bylaws, market trends and sales in order to satisfy the four parts of the highest and best use test.

As properties proceed through the planning process, there is greater certainty of use and availability for development provided by these approvals. MPAC tracks three stages of planning to better understand what probable uses may be legally permissible. As certainty of use increases with each stage, the determination of probable uses that are financially feasible and maximally productive tests become clearer.



- **Stage One** – MPAC consults land use designation and applicable policies in the Provincial Policy Statement as well as local and regional official plans.
- **Stage Two** – The land owner has initiated approvals to implement an official plan for the site. These processes may include a draft subdivision, zoning and site plan. In addition, municipalities can initiate and approve zoning bylaws to facilitate the implementation of the official plan.
- **Stage Three** – Registration of a subdivision or approval of site plan to improve the property has occurred.

To capture differences in value for various uses of development land, MPAC employs multiple lands in transition valuation models: one for residential development land and two models that value multi-residential and townhouse developments.

MPAC's assessments also account for differences as properties proceed through the planning stages. For example, MPAC has developed factors that account for differences between sites that have a site plan approval versus those that are 5 to 10 years from approval.

Further information on valuation model factors can be found in Section 2.3 of the *Market Valuation Report: Valuing Lands in Transition in Ontario (Excluding Toronto)*.

## 2.1 Outline

To fulfill MPAC's mandate of assessing all properties in the province, assessors use an approach adopted by many other jurisdictions in North America called computer-assisted mass appraisal. Mass appraisal is the valuation of a group of properties as of a common date, using standardized methods, common data and statistical testing.

The results of the mass appraisal analysis are in the form of valuation equations and model factors applied to individual property data in order to establish an estimate of current value for the universe of properties in a given market area.

## 2.2 Approach

There are four main phases in the assessment of the subject properties:

1. data collection
2. data analysis
3. valuation
4. validating the results

## 2.3 Data Collection

The data required for lands in transition valuations come from a number of sources:

- review of sales transactions
- historical assessment records
- property inspections
- trends in the development industry and in land use planning (i.e., review of the official plan)

## 2.4 Data Analysis

The analysis for lands in transition has two components: first, the assessor must identify properties where the current use may not be the highest and best use and second, the assessor studies sales data to determine a market value to apply to the property based on the identified alternate use.

### **Identification of Lands in Transition (Current Value Based on Alternate Use)**

As discussed in section 1.1, lands in transition may be vacant or improved. In either case, these are properties where the value of the current use does not reflect current value.

For lands in transition with existing improvements, the existing structures or the use of those structures in their current form typically do not reflect what a willing buyer would pay to a willing seller for the purchase of the property.

In general, the most common and probable improved lands in transition are older retail and office properties, parking lots and residential properties in transitional neighbourhoods close to transit and/or commercial activity where development applications have been submitted.

In 2005, the Ministry of Municipal Affairs and Housing introduced its Places to Grow Initiative, which included growth plans for urban growth centres, transit hubs and intensification corridors. In an effort to identify lands in transition, MPAC focuses on the areas identified in the Places to Grow Initiative. (For more information on Places to Grow, visit [placestogrow.ca](http://placestogrow.ca).)

As discussed above, the identification and valuation of improved lands in transition are governed by considerations of physical possibility, legal permissibility, financial feasibility and maximal productivity.

As such, there are a number of indicators to help MPAC identify a property as a candidate for an alternate use valuation. These include the following:

- location
- lot size
- large site with low overall density
- proximity to other new developments
- neighbourhood undergoing transition from one type of use to another
- sales on the subject property and/or neighbouring parcels
- market supply and demand for various uses
- development applications on subject property and/or nearby properties
- development trends
- committee of Adjustment Decisions on minor variance applications
- Ontario Municipal Board decisions on land use planning matters
- official plan or zoning by-law amendments relating to specific neighbourhoods or individual sites
- presence of older, outdated or poorly maintained structures
- chronic vacancy in subject property and/or neighbouring properties
- demolition clauses in existing leases
- excessive external obsolescence

In addition to the considerations above, assessors must keep in mind designations included in any official plans that limit the property's development potential. Properties that are within designated neighbourhoods, open space or park lands, employment districts and properties subject to environmental constraints will be limited to the designated uses in the official plan. Designated uses are implemented by a zoning bylaw, which legally permits a use.

As discussed above, the application of the highest and best use analysis in a mass appraisal relies on information about property characteristics, planning policies, zoning bylaws, market trends and sales in order to satisfy the four parts of the highest and best use test.

In general, the data referenced for each step of the highest and best use analysis is outlined below:

### **Physically Possible**

- site dimensions
- site location
- soils
- geotechnical issues
- topography proximity to sensitive uses (environmental or social)
- access

### **Legally Permissible**

- provincial policy statements
- official plan
- zoning
- official plan amendment applications
- development applications or zoning bylaw amendment applications
- Committee of Adjustment decisions
- Ontario Municipal Board decisions
- environmental condition
- proximity to environmentally protected areas

### **Financially Feasible**

- cost

- benefit
- risk
- sale transactions

### **Produces the Highest Property Value**

- yield
- project value
- sale transactions

### **Sales Analysis**

Lands in transition are valued using the direct comparison approach. Values are determined based on sales of comparable properties.

For lands in transition, the sales analysis process allows MPAC to achieve several important outcomes:

- Identify appropriate comparables.
- Indicate where and how development is proceeding.
- Ensure sales are reliable indicators of current value (i.e., the transaction occurred at arm's length, in the open market).

Market conditions affect the price of real estate over time. To better reflect the amount that properties would reasonably sell for on the valuation date, sales are time-adjusted to a common date.

### **2.5 Valuation**

A mass appraisal model is an equation used to value all lands in transition in a given market area using factors derived from market transactions.

The model generates a base rate and factors that represent the relationship between property characteristics and value and the contribution of each characteristic to the value.

Each property begins with a base value and the valuation model will add or deduct value, based on the specific characteristics for each property (such as location, type of development or process through planning approvals).

To value the subject properties, MPAC created models based on the type of probable development – residential development land, multi-residential and condominium land and townhouse blocks – to ensure the appropriate base rates and factors are used in the valuation.

- **Residential Development Land:**

- Properties valued using the residential development land model are identified with the property code 125.
- Residential development lands generally transact before the second and third planning stages (i.e., before subdivision, zoning or site approval).
- The residential development land model is able to account for changes in value as properties proceed through the planning process (e.g., if a portion of generally low density residential development is approved for an area of commercial or high-density development).
- Properties may be valued using either the multi-residential or townhouse block model once further information regarding planning approvals is available.

- **Multi-Residential Land:**

- The multi-residential land model is applied to properties identified with the property codes 112, 113 or 114.
- Typically, these multi-residential parcels are vacant parcels zoned for high-rise developments intended for condominium registration or single ownership high-rise rental buildings.
- These types of parcels are generally zoned appropriately, serviced, part of a plan of subdivision and have road access.
- MPAC's valuation factors can account for the impact on value that location and allowable density contribute to these properties.

- **Townhouse Blocks:**

- The townhouse block model includes properties identified using property code 127.

- Townhouse blocks are typically the product of plan registration (zoned for townhomes and considered serviced to the lot line with road access) and ready for construction of condominium townhomes or further severance and construction into single, freehold townhouse lots.

These valuation models are also used when local market conditions and transactions suggest that an alternate use is a better indicator of a property's current value. In these cases, the applicable model is applied to determine its value. For example, existing office space that has been approved for a high-rise development would be valued using the multi-residential land model.

For more information on MPAC's development land valuation models, see the *Market Valuation Report: Valuing Lands in Transition in Ontario (Excluding Toronto)*.

Due to the complexity of the Toronto market where values can vary considerably from neighbourhood to neighbourhood, sales were analyzed and grouped within neighbourhoods, which align with the Provincial Policy Statement, City of Toronto Official Plan, City of Toronto zoning bylaws and other City of Toronto policy documents relating to planning and growth. Sales occurring within these defined areas were used to establish development land rates for each neighbourhood.

Information on MPAC's development land rates can be found in the *Market Valuation Report: Valuing Lands in Transition in Toronto*.

## **2.6 Validating the Results**

Once the assessor has completed the valuation, there are a series of checks to ensure that all relevant parts of the property have been included in the valuation. This review allows the assessor to evaluate market evidence that may be available in relation to comparable properties to ensure the final valuation is in line with the valuation of comparable properties in Ontario.