Market Valuation

Three Approaches to Value

There are three potential valuation approaches that may be used to estimate a property's assessment using the Market Valuation Standard. One or more of these approaches may be used to arrive at a property's assessment using the Market Valuation Standard.

Approach	How Market Value is Estimated	Property Type
Cost Approach to Value	Market value of land + (cost of improvements – depreciation) = value of property	-Unique and special use - Residential/Commercial (limited market data)
Sales Comparison Approach to Value	Compare sale prices of similar property being assessed	- Residential - Warehouse
Income Approach to Value	Analyze future benefits (i.e., income-producing potential of the property)	- Income-producing (i.e., commercial, multifamily properties)

Description of each approach and the types of properties for which they are best suited.

Cost Approach to Value

This approach is based on the assumption that a potential purchaser would pay no more for the property than it would cost to buy a similar lot (or site) and construct an improvement on it with similar utility.

The Cost Approach is best used when the property being valued is recently constructed or nearly new. It is also applicable in situations where there are no or limited comparable sales available, or when the improvements are unique or specialized (e.g., courthouses, fertilizer blending plants, large recreation facilities).

Sales Comparison Approach to Value

This approach is based on the theory that the market value of a property is directly related to the sale prices of similar properties.

This approach is best suited to residential properties and investment types of property that sell frequently on the open market or where there are sufficient sales to use in this approach. When property types are relatively similar, the Sales Comparison Approach provides a dependable indication of market value.

Income Approach to Value

This approach is based on the principle that the value of a property reflects the quality and quantity of the income it is expected to generate over time. Income-producing properties are typically purchased for investment purposes, and thus a property's ability to earn income is the critical element affecting its value from a market point of view.

This approach is used to assess the value of properties such as apartments; retail, office or warehouse buildings; and other investment properties.

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Cost Approach to Value

Which properties may be valued using the Cost Approach to Value?

The Cost Approach to Value can be used to determine the assessed values of the following properties:

- Commercial, Industrial and Institutional properties
- Agricultural properties
- Any other non-residential properties

What is the Cost Approach to Value?

The Cost Approach is used for estimating market value-based assessments that quantifies the cost in current dollars, less depreciation, to recreate the property being assessed. This approach is based on the assumption that a potential purchaser would pay no more for the property than the cost of its replacement, less depreciation.

Note: The Marshall Valuation Service rates are used to determine replacement costs.

How did you get the information to assess my property?

The Assessment Branch maintains a database of information about each property. This information includes recorded property characteristics, building permits, site visits, land title information, and sales data. In addition, assessors follow a regular inspection program to update the database containing your property's physical characteristics.

Why would my property's assessed value change?

Your property's assessment will change if new construction, upgrades, additions or demolitions were recorded for the property. There could also be a change to your property's assessment from a reassessment, which occurs every four years to update the market data and analysis used by the Assessment Office to value your property.

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Sales Comparison Approach to Value

Which properties may be valued using the Sales Comparison Approach to Value?

- Residential and Condominium properties
- Multi-Residential properties
- Warehouse properties

What is the Sales Comparison Approach to Value?

The Sales Comparison Approach to Value is an approach for estimating market value-based assessments by comparison to the sale prices of similar properties that have sold recently. The Sales Comparison Approach is based upon the theory that value is directly related to the sale prices of similar properties, and the assumption that a purchaser would not pay more to purchase a property than for comparable properties of similar utility.

This approach is best suited for residential and investment type properties that sell frequently on the open market and where there are sufficient sales to use this approach.

What is Multiple Regression Analysis?

Multiple Regression Analysis (MRA) is a mass appraisal Sales Comparison Approach method that is commonly used in the assessment of properties. MRA is a statistical technique that analyzes market (independent) variables, such as lot size, building size, building quality and location, and then predicts the value of a single (dependent) variable, that being sale price (market value). Through the use of sophisticated computer software (SPSS), MRA is used to establish what features of sold properties consistently add or detract from the values of sold properties.

How did you get the information to assess my property?

Through regular on-site inspections, the Assessment Branch maintains a database of information about each property. This information includes recorded property characteristics, building permits, site visits, land title information, rental and expense information and sales data.

With respect to sales data for use in the Sales Comparison Approach, the Assessment Branch receives all ownership changes from Information Services Corporation (ISC). The Assessment Branch validates these transfers and screens out those transfers that are not true property sales, and through sales verification validates the sworn values on these titles. This verification process includes cross-checking sworn title values against the indicated sale prices provided by the Multiple Listing Service (MLS), and through direct communication with purchasers and/or vendors as to conditions of sale.

Why would my property’s assessed value change?

There would be a change in your property’s assessment if new construction, upgrades, additions or demolitions were recorded for the property. There could also be a change to your property’s assessment from a reassessment, which occurs every four years to update the market data and analysis used by the Assessment Branch to value your property.

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Income Approach to Value

Which Properties may be valued using the Income Approach to Value?
The Income Approach to Value can be used to determine the assessed values for the following properties:

- Commercial
- Multi-Residential

What is the Income Approach to Value?
The Income Approach to Value (also referred to as the "*rental* income" approach) is used to estimate market value-based assessments by analyzing the anticipated future benefits or income from a property and converting this income into an estimate of present value.

How did you get the information to assess my property?
The Income Approach uses several years of data to stabilize a property's income and expenses. As well, tenants' rents and expenses can change from year to year. The Income Approach produces stable and fair assessments when there are regular submissions of up-to-date, accurate and comprehensive property rent and expense data from rented and leased properties. Because of the importance of property rental data, income and expense requests are sent annually to property owners; there is a legislative requirement for property owners to provide this information.

Does the Income Approach to Value consider the income of my business?
No, the Income Approach does not consider the income from your business. The Income Approach considers only the income related to the real estate (what the property is or can be rented for).

Will the Income Approach to Value apply to my property which I own and do not rent?
Yes. The Income approach estimates value of a property based on the income and expenses of similar properties. If the property is a type of property that is typically rented, the Income Approach could be applied. The Income Approach would be applied to appropriate groups of properties regardless of whether individual properties are rented or owned.

Will the Income Approach to Value remove the wide variability in taxes from reassessment to reassessment?
While the Income Approach will provide more stability than the market-adjusted Cost Approach, there will continue to be a redistribution of taxes in reassessments. The Income Approach will reflect what has occurred in the real estate market, and as there are fluctuations in the real estate market this will be reflected in the values produced by the Income Approach.

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