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Market Value Mass Appraisal Committee

Train the Trainer Guide

November 21, 2000

ISBN-0-7785-0159-0

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Train the Trainer

1.0 The Education Process

The purpose of this guide is to provide some background and instructions for the trainers of the valuation guides. This resource introduces the concepts of education and learning¹, briefly outlines the types of preparation required by the assessor for a training session, and then covers specific subjects where the valuation process is complicated or the instructor should be aware of potential questions.

1.1 Purpose

The aim of any educational program is to enhance performance through the transfer of knowledge.

1.2 Steps in the Education Process

There are a number of different approaches to the education process. R. Gagne, in *The Conditions of Learning*, 4th ed. 1985, outlines the process including the following universal steps.

- 1) Gain attention.
 - Present a good problem or a new situation.
 - *Show a variety of apartment buildings.*
- 2) Describe the goal of the lesson or task.
 - State what the students will be able to accomplish and how they will be able to use the knowledge.
 - Give a demonstration if appropriate.
 - *Pose a question: How do you value apartment buildings?*
- 3) Stimulate recall to prior knowledge.
 - Remind the student of prior knowledge such as facts, rules, procedures, or skills that are relevant to the current lesson.

¹ For a more complete discussion of the education process refer to any number of texts on the subject including: *Later Works of John Dewey, 1938-1939*. Jo A. Boydston (Editor), 1997., or *What Every Great Teacher Knows*, Richard Gibboney and Clark Webb., 1998.

- Show how the information is connected and provide the student with a framework that improves learning and recall.
 - *Review the definition of market value for assessment purposes.*
- 4) Present the material to be learned.
 - Text, graphics, simulations, figures, pictures, sound, etc.
 - Follow a consistent presentation style.
 - *Outline the market value procedure.*
- 5) Provide guidance for learning.
 - *Show an example of how to value an apartment building.*
- 6) Solicit performance, i.e., review and practice the skills.
 - Encourage the learner to apply their newly acquired knowledge by practicing their skills.
 - *Ask the trainees to value sample apartment buildings.*
- 7) Provide feedback.
 - Present a step-by-step solution to the problem.
 - *Check all examples for accuracy.*
- 8) Assess performance.
 - Give progress information.
 - *Provide scores and remediation.*
- 9) Enhance retention and transfer of information.
 - Inform the learner about similar problem situations.
 - Provide additional practice.
 - If possible, review the lesson.
 - *Provide examples of market value exercises and ask the students to identify the ones with appropriate values.*

1.3 Education - A Continuous Process

Education and the learning process are dynamic and take place before, during, and after a formal workshop. To maximize the benefits of the education sessions, it is important to motivate the staff and create unity within the organization. Both the staff and the organization must be committed to a long-term process.

- 1) Organize and distribute materials in advance.

- 2) Plan who will attend the sessions and the overall purpose of the course in the development of the trainees.
- 3) Plan exercises and activities after the workshop that will help reinforce the newly acquired knowledge.

1.4 Role of the Trainer

By creating an environment that fosters learning and provides opportunities for staff to develop and master their skills, the educator or coach is a key element in the continuing education process. Being familiar with the material is essential but the educator must also develop the following expertise.

- 1) The skills to prepare for the session.
- 2) The skills and knowledge to complete the session.
- 3) The skills and knowledge to facilitate the education process.

The skills and knowledge required to prepare and complete valuation procedures are provided in the valuation guides. Specific issues from these guides will be covered in section 3.

1.4.1 Facilitating the Education Process²

There are several steps that can be taken by the educator to enhance the training session.

- 1) Discuss the objectives of the training with the students.
 - What does the student hope to gain by attending the workshop? By discussing their goals the trainees learn to identify and plan their professional careers.
 - Discussion also provides the instructor with an understanding of the current skills and knowledge of the trainees and their goals.
- 2) Encourage students to act as role models in the workplace.
 - Where possible, identify the people who have a strong understanding of the material and can provide ongoing training within the workplace. Involve these individuals as facilitators in meetings and as workplace coaches.
- 3) Monitor the performance of the trainees.
 - Determine the trainees' present skill and knowledge level, and their strengths and weaknesses.

² Much of this material derives from *The Guide to Continuous Learning: Workplace Coaching for Expert Witness and Advocacy Skills Training*, developed by the BC Assessment Authority, 1997. For a fuller explanation of this aspect of training please refer to this material.

- Encourage trainees to practice their new skills.
 - Show an interest in the progress and development of the trainees and indicate a commitment to the education process and the future of the staff members.
- 4) Provide corrective and supportive feedback.
- Trainer feedback provides information to the trainees about their progress and performance.
 - Supportive feedback aids trainee's performance.
 - Corrective feedback assists the trainees in recognizing and correcting problems. Feedback should be provided in a non-judgmental, positive explanation or demonstration of alternate methods and procedures.
 - Feedback should be specific, immediate, and direct.
 - Feedback will lead to the next phase of the training.

1.4.2 Barriers to Learning

For the education process to be effective, barriers to learning must be recognized and overcome. Common barriers are:

- 1) trainees may be uncomfortable with change and may resist new or different methods;
- 2) trainees may want to learn but a lack of resources or support in the workplace impedes this process;
- 3) negative peer pressure can discourage learning and change;
- 4) coaches and trainers may not provide positive reinforcement or opportunities to practice new skills.

1.5 Summary - Education Process

Good education programs require trainers that can educate and coach trainees to become effective evaluators of properties. Training must be viewed as a long-term process that involves activities for the trainer and the student that extend beyond the formal training session.

2.0 *Preparation for Training*

2.1 The Valuation Guides

Under the guidance of the Market Value Mass Appraisal Committee (MVMAC) the Alberta Assessors' Association has developed several guides outlining various property valuation processes. As there are some differences in how valuation procedures are taught and practiced in the assessment jurisdictions in Alberta, the methods outlined in the guides represent a consensus that may not correspond exactly with each technique used by each trainer to value property. At this time the procedures outlined in the guides are not mandatory. However, *if you teach this material please follow the methods outlined in the guides.*

2.2 Preparation

2.2.1 Valuation Experience

Practical experience is immensely helpful when teaching a subject. Even though the approaches presented in this guide may not correspond exactly with the methods practiced by each assessor, the practical experience of the trainer and trainees will provide valuable insight into common errors of the valuation process.

2.2.2 Read the Guide

The guides, generally between 20 and 40 pages long, provide straightforward explanations for the procedures and rationale that form the valuation process. The trainer must read the guide to ensure that he or she understands the material or can contact someone to clarify the information.

2.2.3 Knowledge of Computer Programs

The training material includes the written valuation guide, spreadsheets and slide presentations. Knowledge of software such as Microsoft Excel and Microsoft PowerPoint will assist the trainer in understanding and teaching the valuation methods. Such knowledge is also essential if the teaching material is to be adapted to include more relevant and current examples.

2.2.4 Actual Examples

The various training materials supplied with the guides contain a number of examples and solutions that can be used during the training along with the illustrative valuation parameters. However, to best understand the valuation processes, the instructor is encouraged to work through examples with the students. If the trainees are all assessors and subject to the

confidentiality provisions of the legislation, *actual data* can be used to develop examples. These examples can then be used as the basis for explaining the valuation process.

2.2.5 Valuation Parameters

Many of the guides include tables with illustrative valuation parameters and these elements are used to value the typical classes of property. If actual valuation parameters have already been developed during the process of an assessment, then these numbers can (and probably should) be used instead of the illustrative numbers contained in the guide.

2.2.6 Prepare Presentations

PowerPoint presentations also accompany the guides. View the slides to determine which points are important and if any content should be added or further explained. Again if the trainer does not understand any of the teaching material it should be discussed with a colleague.

These presentations are based on the material presented in the guide. If actual examples and valuation parameters are used, then the slides should be updated to reflect these changes.

2.3 Teaching

Most guides and training materials contain introductions on valuation theory and approach rationale. The amount time spent on this part of the training, or on any other part of the training, will depend upon the existing level of understanding among the trainees. It should be possible to train most guides within a one-day session. Some valuation procedures will be shorter, especially if the theory and rationale have already been presented.

2.3.1 Teaching Tips

The following are a few practical presentation tips.

- If material is to be distributed, prepare it in advance and distribute it accordingly.
- Ensure that the teaching room is prepared in advance and is properly equipped for the training (i.e., overhead slide projector, computer for the trainer, and computers for the students).
- More examples are better than fewer examples.
- Ensure that the examples are current and accurate.
- Trainees respond better to interactive approaches.

3.0 *Specific Valuation Issues for the Trainer*

3.1 General Valuation Issues

3.1.1 Collect Appropriate Information

In valuation analysis it is generally acknowledged that the more information known about a property, the easier it will be to value. Assessors must balance this principle with their central purpose—to value a large number of properties in an efficient manner, i.e., to complete a mass appraisal. Avoid the temptation to collect every possible piece of information: blanket requests may reduce the co-operation of the taxpayer, and a large amount of data may slow and confuse the mass appraisal valuation process. Before collecting any information, prioritize the value of the information and then assemble the data.

For example, if it is not clear what type of information will be useful, one strategy would be to collect all available information on those properties that have sold and collect the appropriate information for all properties that have not sold. A valuation analysis can then determine which attributes and characteristics are good predictors of value.

Property inspections will assist the classification of property and are not just reserved for those properties that are to be valued using the cost approach. The physical property valuation should include data inspections and the collection of information such as locational attributes.

3.2 General Issues with the Income Approach

The valuation of many income properties is a subjective process that involves decisions and judgment about the nature of the income stream and how to apportion it among various business and real estate components. The assessor should be aware of a number of assumptions inherent to the process.

3.2.1 Future Benefits

The income approach is based on the present worth of expected future benefits. However, the typical analysis in the direct capitalization process is a determination of value of the current or historical benefits. What is often overlooked is the assumption that future benefits will be the same as present benefits. This assumption may or may not be correct. Attention must be given to the "future looking" aspect of the income valuation process and whether it is possible to predict changes in the future relative income levels.

Where it can be reasonably and logically shown that future income will change from present levels, some adjustment to the direct capitalization process will be required to produce appropriate market value conclusions.

By making assumptions about the nature of future benefits, the accuracy of the income valuation may be questionable. However, if no other assumption about changing income levels can logically be made, it is probably more reasonable to assume that expected future benefits will not change from current levels. The point being, that unless future benefits are considered as part of the income approach, the appropriateness of the valuation will not be known.

3.2.2 Business Value versus Real Estate Value

To establish real estate value, the income approach is used to determine the income that can be solely attributed to the property. Many properties earn income and businesses that operate on those properties also earn income. The income attributed to the business is not assessable and should not be included in the value of the real estate; however, for many properties the distinction between property income and business income is not clear. For example, a hotel rents rooms, operates a restaurant and generally provides many other services. In many cases a portion of the income is directly attributable to the management of the hotel and not the real estate, but distinguishing between the two types of income may not be easy.

When analyzing income and rent, the objective is to determine the net amount paid to the owner that is attributable to the real estate. For those properties where income must be divided into real estate and non-real estate components, the property analysis should include any assumptions and rationale involved in the process.

3.2.3 Actual versus Typical Market Rents

Income analysis begins with the collection of actual rental data. A resistance to prejudging the market makes it tempting to use the actual property income data to value that property. Again the assumption in this decision is that the actual rent is indeed market rent, i.e., the amount of rent collected by the property owner would be the same amount of rent collected by any owner of that property. Where property management is competent this assumption is likely true. For example most large shopping centres, office buildings, and hotels tend to have professional management. A certain level of competency can be assumed in these cases, lending validity to a valuation based on actual rents.

However, the assessor can only be satisfied that actual rents are representative of market rents by analyzing similar properties in the marketplace. To be satisfied that the income approach produces an appropriate market value, a study of typical market rents and market conditions should be completed.

This is not to say that using actual rents and valuation parameters will lead to an inaccurate assessment: if actual rents reflect typical market rents they can safely be used. However the assessment system requires that a property be valued under current market conditions and to ensure that market values are being generated, typical rents and typical valuation parameters should be studied and applied.

3.2.4 Establishing Market Rents

For both tenant and owner there are three components to the cost of real estate:

- 1) rent
- 2) operating costs
- 3) property taxes.

Both the tenant and the owner should be aware of the costs and consider them when evaluating a property. The tenant is most concerned with the total payments and the owner is most interested in the net amounts received.

One of the primary objectives in any income analysis is to determine the net rent or benefit to the owner. In true, triple net rent situations (such as office buildings and shopping centres) where the tenants pay rent, taxes and operating costs, the income analysis only requires the evaluation of the rents paid to the owner. Where the owner covers some or all of the taxes or operating costs, all three of the costs of real estate must be considered in the analysis. Rental arrangements that claim to be net are not necessarily the case. To establish the net rents paid, leases (especially those for anchor stores) require careful analysis of all real estate related cash flows. The same is true if the owner offers tenant inducements.

3.2.5 Capitalization Rates

Nature of Capitalization Rates

A single capitalization rate is composed of many valuation factors.

- 1) The expected risk in receiving the income.
- 2) The expected rate of growth or relative decline of the income.
- 3) The relative risk and potential return presented by an investment opportunity compared to other opportunities.

The capitalization rate process assumes that the relative income will remain the same in perpetuity and the effects of inflation are assumed to be constant. However, the perpetual aspect of the valuation process must be questioned for two reasons: relative income may rise and fall over time and secondly, no improvement will last forever.

Consider the capitalization of one dollar. If an investment returns 8% per annum, \$12.50 will return \$1 every year in perpetuity. To receive \$1 every year for 30 years, only \$11.26 invested at 8% is required. That is, a 10% smaller investment lasts 30 years rather than forever. Similarly, at 8%, \$9.82 returns \$1 for only 20 years—a difference of 21.5% from the original \$12.50.

The point is that if the remaining economic life of a property is limited, the direct capitalization process likely needs to be adjusted.

Establishing Capitalization Rates

The best method to establish capitalization rates is to study similar properties sold within a particular time frame. Other methods such as band of investment, mortgage-equity, etc. are available to justify a capitalization rate but these methods do not possess the same support from the jurisprudence.

When analyzing sales, both the sale prices and income data are required and both elements should be included to ensure the appropriate parameters are generated. For example, if the income data from all sales includes operating expenses, and capitalization rates are determined on the basis of gross income, this must be acknowledged. Alternatively, if the assessment process gathers income information net of operating expenses, the capitalization rate developed on gross income cannot be applied to the net income figures. To develop appropriate values the system requires the use of “like items” (compare oranges to oranges), and gross income figures must be adjusted to net amounts in the study of market generated capitalization rates.

A typical complication in this process is that some of the sales report net income and others report gross income. In addition, some sales figures may include the value of chattels while others do not. The lesson to be learned is that all sales and income information should be scrutinized and validated to determine appropriate capitalization rates.

Effective Tax Rate

How to deal with the effects of property taxation (an expense that lowers the net income of the property) in the capitalization of income, is a common question. The general rule is that where the tenants typically pay the property taxes, i.e., where it is a flow-through expense (shopping centres), the capitalization rate should be developed without an effective tax rate. Keep in mind, the objective is to determine the net amount of income generated by the property for the owner. If the owner typically pays the taxes (apartments, hotels) then the capitalization rate should include an effective tax rate component.

The hotel and multi-residential guide touches briefly on the effective tax rate issue. For a more complete discussion of capitalization rates and effective tax rates, refer to *Property Appraisal and Assessment Administration* by Joseph Eckert, ed., The International Association of Assessing Officers.

In the following sections of this guide we deal with some of the issues that may arise in the valuation guides.

3.3 Shopping Centres

3.3.1 Classifying Tenants into Groups

In a mass appraisal, the key to a successful market value analysis is to stratify or classify all properties and tenants into groups containing common elements, i.e., same type of mall (enclosed, one level, suburban, etc.) or same type of rental arrangements (food court outlets).

The reason for classifying tenants (or shopping centres) is to make it easier to establish valuation parameters (typical rents, etc.) and to compare one property to another. A larger number of classes results in a finer distinction and definition among the members in that group (banks, jewelry stores, shoe stores, etc.). However, if there is not a representative sample of stores in a class, it becomes difficult to determine typical rents and valuation parameters. Conversely, fewer classes suggest more stores within a class, representing a broader range of characteristics within the class.

There is no single correct or appropriate classification system. Two questions must be considered when choosing a classification system.

- 1) How will this system assist in the valuation of the particular property?
- 2) How will it assist in the valuation of similar properties?

The following observations can be made regarding the classification of shopping centres and their tenants.

- Classification should be based on the types of retail properties prevalent in the municipality.
- There is a wide range of rents paid by shopping centre tenants; for example the typical large department store anchor may pay \$5 sq. ft. to the 50 sq. ft. kiosk paying \$100 sq. ft. There is also an average rent for the entire centre, say \$20 sq. ft. If the valuation of a centre is based on an average rent, it does not provide any flexibility should the tenant mix change, i.e., the addition of an anchor store. Also, with one average rent or one class of tenants, it becomes difficult to compare malls because the composition and layout of the space vary. If there are too many classes of tenants the assessor could spend a great deal of time evaluating and classifying each store. Again, as the tenant mix changes, i.e., a jewelry store changes to a shoe store, the classification and value must be adjusted.

- The classification system should be established to make the valuation process easier. It should provide the assessor with the ability to describe the space and typical rents as well as be adaptable to reflect changes within the centre and depict the differences between centres. For most shopping centres, five to ten classes of tenancies should suffice.

3.3.2 Valuing without Rent Rolls

Standardized classification can also assist in situations where no income information is available. If typical rental rates are established for typical tenant classes in neighbourhood shopping centres, then by knowing the physical data, or through a property inspection, it becomes possible to value all neighbourhood centres.

3.4 Hotels and Motels

3.4.1 Complicated Spreadsheet

The valuation of hotels and motels involves the analysis of many factors and cash flows. As a result the spreadsheet that accompanies the guide is fairly complex. Before teaching the course, the trainer should become familiar with the spreadsheet and ensure that all calculations and formulas are accurate.

The best way to approach this training is to become familiar with the spreadsheet by completing some examples. Prepare some actual examples and take time to explain the process.

3.4.2 Restaurant Income

There can be wide variation in the amount of income produced by hotel restaurants. For some properties it can be the main source of income and non-existent in others. These factors tend to skew the typical or average results. Therefore, to properly analyze and classify hotel and motels, the properties should be inspected before valuation.

Recently a number of hotels have entered into leasing arrangements with restaurant chains located in the hotels. For example a hotel may rent space to a chain restaurant for \$18 per sq. ft. or, so much per seat. It should be possible to value these and other similar restaurants by analyzing the rental arrangements.

3.4.3 Beverage House

It can be particularly difficult to separate the income attributable to management and business from the income attributable to the real estate in a beverage house or beer parlor. Typically, a majority of the income from a beverage house comes from the sale of beer and alcohol. Prime locations result in better sales and superior real estate value. However, good management also

enhances sales and consequently the real estate value. On the other hand, poor management will be detrimental to the business and reduce the property value. The issue is further complicated by the manner and methods used to report the incomes.

There is no easy method to define income into real estate and business components when valuing a beverage house. In the best case scenario, sales evidence will support valuation conclusions and the analysis of income and expense statements will provide typical valuation parameters.

3.4.4 Video Lottery Terminals

Video Lottery Terminals (VLTs) further complicate the analysis of business and real estate income. Clearly, not all of the income arising from VLTs is attributable to the real estate. However hotels and motels provide an environment for the use of VLTs, therefore the real estate has some additional value. In addition to the guidelines provided in the hotel and motel valuation guide, it might be possible to establish rents based a percentage of income attributable to VLTs. For example, a study may show that on average, stores in shopping centres may pay 9% of their gross sales as rent. A similar factor could be established as “rent” for a VLT.

3.5 Office Buildings

3.5.1 Classification

The central exercise in analyzing income type properties is the classification of tenant and property types into appropriate groups. While office buildings in a municipality can display a continuous range of appeal in terms of quality and location, these properties should be split into groups that establish and apply valuation parameters. The division of properties may not be clear or conform to preconceived notions of office quality, therefore be prepared to consider alternatives in the grouping. Time spent on the initial analysis and classification of properties will pay off during the valuation phase of the process.

3.5.2 How to Deal with Retail Space

The retail space in an office can be considered as one of the classes of tenants, especially if the space is not extensive and is limited to one floor. Where retail space is extensive or displays a range of characteristics (i.e., multi-level), then several classes of retail space may need to be established.

Where retail space is extensive, the valuator may want to complete two valuations—one for the office component and one for the retail or shopping component, as outlined in the shopping centre valuation guide. Both component values are used to assess the total property value.

3.5.3 Tenant Improvements

Using the cost approach or the income approach, individual fixtures are assessed as part of the valuation process. If an item is assessable and if it adds value to the real estate, then it should be valued. Using the income approach, the market rent established for finished space will capture the value of these fixtures without having to independently cost and depreciate each tenant improvement.

To determine whether an item has value the assessor should take the view of a tenant and then the owner. Will the tenant pay more rent if the space is finished or unfinished? Will the owner be able to charge more rent for finished space? If the answer to either of the questions is "yes", determine the amount of rent the tenant would pay for the finished space and use this amount as the basis of the value. If the answer is "no" as is the case for most shopping centre tenants, then it does not matter if the space is finished and the tenant improvements do not add value to the property.

3.6 Multi-Residential Properties

3.6.1 Effects of Ownership

Using valuation principles the ownership structure should not make any difference to the market value of a property. This point appears to be tested when valuing apartment buildings. Take the example of two buildings that are reasonably similar—one is a rental building with one owner, the other is a condominium with several unit owners. In this situation the market may produce significantly different values per unit when these properties are sold.

Differences in value can sometime be explained by the difference in the quality of the units, and in maintenance practices undertaken in each building. Differences may also be explained by changing economic times: for example an apartment building owner may not have adjusted rents quickly enough to reflect current market conditions.

The reasons behind value differences may be due to an underlying condition. Consider the following questions.

- Are these similar properties?
- Is the zoning the same?
- Would the land for a condominium project cost more than for a rental project?

If differences arise from these points the properties may have different values per unit and should be valued as different classes of property. Ownership does not cause value differences; instead property valuations differences arise from more central issues. Other points to consider are the forces contributing to the value per unit.

- Can the apartment owner convert the building into condominiums? At what cost? Does this amount explain the difference in value between the rental apartments and the condominium?
- The sale of an entire building on a unit by unit basis may take years and involve significant sales commissions. Do the timing and variances in sales commissions explain the difference in value?

Once the normal influences on value have been considered, the unit values of an apartment building and a condominium building should be reasonably similar.

3.7 Strip Commercial

3.7.1 Classification of Properties

The strip commercial property type includes many of the retail and commercial facilities that are not dealt with elsewhere. Proper classification of these properties will assist in the valuation analysis. In classifying this broad range of properties the assessor can be guided by the following principles.

- 1) Develop classes according to the types of properties in the municipality. For example if there are 6 fast food restaurants in town then they may form a class unto themselves. However, it may also be determined that banks display the same kind of rental and vacancy characteristics and can also be placed in the same "fast food" class.
- 2) It will not be possible to have a class for each type of commercial activity and some classes may be established on the basis of location rather than use. For example one class of property may incorporate a variety of commercial activities from restaurants to barber shops but all have similar locational attributes.
- 3) The objective of the classification system is to employ mass appraisal techniques and to value properties where no income information is received. The classification process should assist the assessor—not make the valuation task more cumbersome.

3.8 Manufactured Home Communities

3.8.1 Collection of Data

The basic problem with the valuation of manufactured home communities is the availability of information. Sales and income information will establish capitalization rates that drive the income valuation process. Where information is unavailable, the assessor must make assumptions and adjustments to data to complete the valuation. Valuations that rely on

secondary data may not be as "clean", but with thorough research using available data, and stating the valuation assumptions that were made during the process, the assessor will have fulfilled the valuation mandate.

3.9 Warehouses

3.9.1 Volume versus Area

Even though they perform similar of functions, warehouses come in a variety of shapes and sizes. From the warehouse manager's point of view, the value of the property relates to four factors:

- 1) the location of the property with respect to sources of supply and demand,
- 2) the operating costs of the property,
- 3) the cubic volume of storage space, and
- 4) the accessibility of the goods stored.

Different types of warehousing may trade more heavily on some of these aspects than others. For example accessibility is not as important in long term storage facilities but is still a key feature in any warehouse.

It is not sufficient to know the building area of a warehouse; the useful height and volume of the facility should also be known. Better valuation results may be achieved with volume figures as the benchmark.

3.10 Gas Stations

3.10.1 Defining a Gas Station

It may be difficult to choose the appropriate valuation method when assessing gas station properties. For gas bars and traditional service stations, the valuation guide recommends the cost approach. However, both types of property have given way to the gas bar with a store and/or fast-food outlet. The following are three possible methods to assist with these valuations.

- 1) If the appropriate rents or incomes attributable to the property can be established for the store, fast-food *and* gas operation facility, then it may be possible to use the income approach to value the entire property.
- 2) If rents can only be established for the commercial retail aspect of the property, then this portion should be valued using a hybrid income and cost approach where

the gas pumps, canopies, signs, booth, etc. are valued using the cost approach. The cost value is then added to the income value of the retail operation.

- 3) If it is not possible to delineate appropriate rents for any aspect of the property then a cost approach should be used.

Any approach can be validated using available sales data.

3.10.2 Life Expectancy

Current retail practices of the large gas companies, traditional service stations and gas bars have limited economic life-spans, i.e., the remaining economic life of these properties is not based on physical longevity, but on economic factors. This aspect of a gas station property should be considered in the valuation process, especially when the cost approach is used.

3.11 Special Purpose Properties

3.11.1 Utility Analysis

The key to determining the value of a special purpose property is to understand its functionality and utility. Again, it is the value of the real estate that is being established—not the value of the business. Therefore, the fundamental question is how well does the property fulfill its desired or intended function? The answer to this question is critical to determine the appropriate depreciation.

Apart from common knowledge the assessor is not expected to know how well each property functions. The owner must provide some of this information and the assessor should attempt to understand the functionality of the property.

3.11.2 Replacement Costs

There is extensive discussion regarding replacement versus reproduction costs in the special-purpose property valuation guide. To generate a market value estimate, every cost approach must estimate replacement costs. It may be practical and necessary to begin with a traditional reproduction cost analysis, but after applying depreciation, the final estimate must be a value based on replacement costs.

3.12 Grain Elevators

3.12.1 Obsolescence Factors

Obsolescence is a factor that affects the value of many grain elevator properties. During the 1998 valuation period typical obsolescence based on turns or throughput were analyzed for

certain types of grain elevators. This study of obsolescence is available but may or may not be appropriate for future years. In the analysis the assessor must apply his or her own judgment of the effects of obsolescence on value.

3.12.2 Cyclical Nature of Industry

The grain industry is cyclical and subject to changes in climatic conditions and world market conditions. Better crop years yield higher volumes, but this may also result in lower prices. The assessor must make an effort to understand the industry cycles. One of the best ways to do this is to collect and analyze several years of industry information.

3.13 Golf Courses

3.13.1 Income Considerations

The valuation guide of a golf course requires two methods of valuation analysis: income and cost. The valuation of a course will require comparative judgments and it may not be possible to determine income parameters for all types of golf courses. Work is being completed on the valuation parameters for these approaches.