



Highest and Best Use Policy

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Purpose

This Assessment Policy ensures that BC Assessment (BCA) consistently and correctly assesses property valued at market/actual rates, and identifies and reviews property in transition to its highest and best use (HBU). Property where the land and/or improvements are valued using non-market rates are out of the scope of this policy.

Highest and Best Use Importance

Highest and best use is the reasonably probable use of Real Property, that is physically possible, legally permissible, financially feasible, and maximally productive, and that results in the highest value (Appraisal Institute of Canada, CUSPAP). An interim use is the temporary use to which a site or improved property is put until it is ready to be put to its future highest and best use (Appraisal of Real Estate 3rd Canadian Edition, 2010).

A highest and best use determination is an integral part of estimating market value, or actual value. The *Assessment Act*, sec. 19 describes valuation for the purposes of assessment, and in most cases, the assessor must determine the actual value (i.e., market value) of land and improvements. It is important to follow this policy for the following reasons:

- Adhere to the *Assessment Act*, sec. 19 and case law direction to determine property's actual value;
- Ensure property is valued at its highest and best use in alignment with appraisal practices;
- Identify and review property that is in transition to its highest and best use;
- Ensure contributory improvement value of interim use is accurate and consistent;
- Provide a consistent tax base for applicable local governments, regional districts, and/or First Nations; and
- Produce an accurate and consistent assessment roll and other property data products.



Policy Statements

1. Land must be valued according to the [Highest and Best Use as Vacant Requirements](#).
2. Improvements must be valued according to the [Highest and Best Use as Improved Requirements](#).
3. Property must be reviewed for changes in HBU according to the [Highest and Best Use Review Requirements](#).



Highest and Best Use Requirements

Highest and Best Use General Requirements

1. In determining the highest and best use of a property, as if vacant and/or improved, the following five tests of highest and best use must be taken into sequential consideration:
 - Legally permissible;
 - Physically possible;
 - Reasonably Probable;
 - Financially feasible; and
 - Maximally Productive.
2. Classification must be based on use of the property, or land use regulations when the property is unused, according to the [*Prescribed Classes of Property Regulation*](#), which may be different than the HBU valuation.
3. Improved property must have an analysis of excess/surplus land to determine the contributory value of the excess/surplus land, if any.

Highest and Best Use as Vacant Requirements

1. Land must be valued using a direct comparison approach based on its HBU as vacant.
2. A highest and best use analysis as vacant must be completed prior to considering highest and best use as improved.

Highest and Best Use as Improved Requirements

1. Improvement value must be the contributory value to the HBU as vacant, if any.
2. Improvement(s) must be analyzed in terms of three potential options:
 - a. Continuation of existing/actual use;
 - b. Modification of the existing/actual use; or
 - c. Demolition and redevelopment.
3. If the HBU as improved analysis reveals that option (a) is applicable, and the improvements are expected to continue being used as is for the foreseeable future (i.e., more than 5 years), the HBU as improved is for the existing/actual use, and valuation is as follows:
 - Where the HBU as improved is aligned with the HBU as vacant, the land and improvements must be valued according to the existing/actual use.
 - Where the HBU as improved is not aligned with the HBU as vacant (i.e. the last 3 HBU tests are not satisfied when considering HBU as improved), an interim use is present and valuation is as follows:
 - There must be a suppressed land valuation that is aligned with the existing/actual use, in addition to the land valuation for the HBU as vacant; and,



- A further analysis of the improvements must be conducted to determine if the improvements provide a contributory value (see [Analysis of Contributory Value of Interim Use](#)).
4. If the HBU analysis reveals that either options (b) or (c) are applicable, the improvements are being used for a purpose that is not aligned with the HBU. The existing use is expected to transition to the HBU (through modification or demolition) within a short time frame (5 years or less), an interim use is present and valuation is as follows:
- There must be another, suppressed land valuation that is aligned with the existing/actual use, in addition to the land valuation for the HBU as vacant; and,
 - A further analysis of the improvements must be conducted to determine if the interim use provides a contributory value (see [Analysis of Contributory Value of Interim Use](#)).

Note: The determination of short-term is based on the competitive market set, and may vary depending on the type of development and location; however, for consistency and equity, 5 years or less is considered short term for all property types.

5. Where the HBU as vacant is not aligned with the HBU as improved, the valuation method must be set to cost, the applicable HBU Attribute must be selected, and the following analysis must be undertaken (part of the analysis of the last 3 tests of HBU see [HBU General Requirements](#)):
- The anticipated holding period must be estimated from the valuation date (July 1st) to development of the site to its HBU; and
 - An appropriate market discount rate must be estimated; and
 - The present value of the end of holding period inputs must be estimated; and
 - For improvements with income generating potential: the present value of each year's NOI until the end of the holding period must be estimated; or,
 - For improvements with no income generating potential: the market adjusted replacement cost new less depreciation (RCNLD) is to be reviewed to ensure all forms of depreciation are taken into account.

Note: These estimations must be based on market activity, not the individual property owner's development plans. Examine the development timing of similar properties in the subject's competitive market set. All end of holding period inputs must be considered in the equation (i.e. demolition, modification, salvage, and remediation). For end of holding period inputs, research Marshall & Swift (M&S), or gather estimates from contractors/developers.



Analysis of Contributory Value of Interim Use

1. For improvements with income generating potential, the difference between the net present values of each year's NOI and the net present value of the end of holding period inputs must be calculated.
2. For improvements with no income generating potential, and the difference between the present value of the market adjusted RCNLD and the net present value of the end of holding period inputs must be calculated.
3. Where the result of either of the above equations:
 - contributes a positive value (more than \$10,000), that value must be entered as an override improvement value; or
 - contributes a negative value (less than -\$10,000), that value must be entered as a negative adjustment to the land, and \$1 must be entered as an override improvement value; or,
 - contributes zero, or a minor value (between \$10,000 and -\$10,000), no adjustment is to be made to the land, and \$1 must be entered as an override improvement value.
4. The calculation of improvement(s) contributory value, and market evidence to support the inputs must be attached to the property record.\

Highest and Best Use Review Requirements

1. Property ripe for development to its HBU within 2 years must be reviewed annually to determine if changes have occurred that affect value.
2. Property in transition to its HBU in 2-5 years must be reviewed at least every two years to determine if changes have occurred that affect value.
3. Property in transition to its HBU in 5 years or more must be reviewed at least every five years to determine if changes have occurred that affect value.
4. Property not previously identified as in transition to its HBU may be discovered by:
 - Comparing the HBU as vacant land value to the value of the HBU as improved where the HBU as improved not aligned with the with HBU as vacant.
 - Comparing the cost of the depreciated improvement to the residual value of the improvements determined through the income method. If the residual value (income) is less than the depreciated value (cost), the property may be in transition.
 - Comparing the residual improvement value generated by the income approach to the overall income value. If the improvement value is minimal compared to overall value, the income stream may not support the underlying land value, and the property may be in transition.



Resources

Definitions

- Refer to the [BC Assessment Glossary page](#) for term definitions.

Related Policies

- [Industrial, Commercial, and Investment \(ICI\) Land Policy](#)
- [Mixed-Use Development Land Policy](#)

