BC ASSESSMENT

Non-Realty Value Policy

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Purpose

This Assessment Policy ensures that BC Assessment (BCA) accurately identifies and treats non-realty value. A fundamental principle of identifying non-realty value is that real estate that is occupied and operational at economic levels (see *Assessment Act* section 19(4)) with a highest and best use that is limited to rental of land and improvements has no non-realty value component.

Non-Realty Value Importance

Non-realty value components include personal items (e.g., furniture, fixtures & equipment), business value (e.g., inventory, franchises, patents, or trademarks), and other intangible items which do not constitute real property and are excluded from property assessments. It is important for BCA to follow this policy to:

- Adhere to our legislated requirement to only value land and improvements;
- Produce an accurate and fair assessment roll;
- Ensure that properties that may include non-realty value are accurately assessed;
- Maintain high quality property information data; and
- Provide local governments and other taxing jurisdictions with a stable tax base.

Policy Statements

1. Going concern value must only include land and improvement values and exclude any non-realty value.
2. Newly constructed properties that are not yet occupied and properties that have significant vacancy issues must be valued as though they are occupied and operating in a similar manner to competing properties in the market.
3. All inputs to the valuation process of income properties must be examined for non-realty value as per Non-Realty Value Identification Requirements.
4. Where non-realty value is identified, it must be treated according to Non-Realty Value Adjustment Requirements.

Non-Realty Value Requirements

Non-Realty Value General Requirements

1. Only the land and improvements of a going concern must be valued, which excludes any non-realty value.
2. Newly constructed properties that are not yet occupied and properties that have significant vacancy issues must be valued as though they are occupied and operating in a similar manner to competing properties in the market.

Non-Realty Value Identification Requirements

1. For income properties, all inputs to the valuation process (i.e., market information) including:
    - leases;
    - vacancy studies;
    - income and expense information;
    - capitalization (cap) rates; and
    - sales information;

   must be examined in order to determine if the highest and best use of the property is limited to the rental of the land and improvements or if there is additional non-realty value. Refer to Appendix 1: Analysis of Market Factors Table.

Non-Realty Value Adjustment Requirements

1. Where examination of valuation inputs reveals that the highest and best use is not limited to the rental of the land and improvements, the non-realty value must be quantified and eliminated in the valuation process. Refer to Appendix 2: General Non-Realty Value Decision Tree.
2. Non-realty value adjustments must be accompanied by explanatory notes and market support.

Resources

Definitions

- Refer to the BC Assessment Glossary page for term definitions.

Related Policies

- Golf Course and Driving Range Properties Policy
- Hotel and Motel Properties Policy
- Industrial, Commercial and Investment (ICI) Sales Policy
- Office Properties Policy
- Rental Apartment Properties Policy
- Retail Properties Policy
- Shopping Centre Properties Policy

References

- *Assessment Act*

Appendices

Appendix 1: Analysis of Market Factors Table

The following table provides an initial screening tool for value components examined during analysis of market information. An attempt has been made to identify specific market data inputs that may have a component of non-realty value. The value component categories are based in part on the 2nd Canadian Edition of *The Appraisal of Real Estate*. The information presented in this table is not meant to indicate whether or not any particular value component is assessable.

Value components can be assigned in three ways: to real estate (RE) only, to non-realty (NRE) only, or to both real estate and non-realty (i.e., not easily separated).

Category	Value Assigned (RE, NRE, Both)	Rationale/Comments	Action
		Real Property Rights Conveyed	
Leases	Both	Lease payments may be structured to include profit participation clauses, or other business related forms of consideration.	Analyze leases to determine if payment structure represents market rent or requires adjustment.
Title restrictions	RE		Refer to p. 13.4 of 2nd Canadian Edition of *The Appraisal of Real Estate*.
Encroachments	RE		Refer to p. 13.4 of 2nd Canadian Edition of *The Appraisal of Real Estate*.
Amenities/ privileges associated with ownership	Both	Examples include golf memberships tied to purchase of residence, or vacation club privileges (off-site).	Review privileges to determine if they transfer with land or have a fixed term and are specific to initial purchaser.
Strata ownership	Both	Non-real estate items may include, for example, shared ownership in FF&E. Reserves, however, are considered part of RE capital since they are legally dedicated to the strata property.	Determine if a deduction, based on unit entitlement, for return on and return of FF&E is required.
Interests less than fee simple	RE	An ownership interest encumbered by a lease is the leased fee estate; the rights of use and occupancy have been conveyed to a tenant, making the owner’s interest less than fee simple for the life of the lease.	See definition of “fee simple.” Refer to diagram on p. 402 of 1st Canadian Edition of *The Appraisal of Real Estate*

Category	Value Assigned (RE, NRE, Both)	Rationale/Comments	Action
		Other examples include quarter or eighth shares in real estate with subsequent time-share arrangements.	
Financing – Cost of Capital			
Beneficial financing	NRE	Consider value differential with typical financing arrangements.	Adjust for market value of beneficial financing. Calculate mortgage payments and reversion at contract interest rate. Discount this payment stream to present value at market rate. The result is the value of the financing benefit.
Interest during construction	RE	This is part of the capital input into real estate development.	Refer to p. 17.11 of 3rd Canadian Edition of *The Appraisal of Real Estate*.
Entrepreneurial reward (profit)	RE	This is part of the capital input into real estate development.	Refer to p. 17.11 of 3rd Canadian Edition of *The Appraisal of Real Estate*.
Conditions of Sale			
Plottage value	NRE	In the case of land assembly projects, if a developer pays over market for a critical property needed to achieve density or other requirements, the value is not attributable to the realty. Value is also not attributable to realty in the following instances: when a purchaser pays more for the last lot, or; a special price arrangement exists when a builder buying a block of lots agrees to market homes back through the developer.	Review the following BC Supreme Court ruling for the case law in assessing contiguous lots in land assembly situations. Refer to SC 320 *Ross & Grub v. AA10*
Other Expenditures After Purchase			
GST	RE	Treatment of GST for new construction will depend on local RE market behaviour.	
Disposition fees	RE	Examples include commissions, marketing costs, etc. Market behaviour dictates how these monies are treated.	

Category	Value Assigned (RE, NRE, Both)	Rationale/Comments	Action
Remediation	RE	All site contamination expenses should be related to the HBU.	
Deferred Maintenance	RE		Refer to p. 19.18 of 3rd Canadian Edition of *The Appraisal of Real Estate*
Demolition	RE	Demolition is a step in site preparation. It is related to HBU.	Follow Highest and Best Use Policy. Refer to p. 12.4 of 2nd Canadian Edition of *The Appraisal of Real Estate*.
Location			
Locational advantage	RE	Typical examples involve commercial properties which generate higher rents and command higher prices due to high traffic locations.	
Synergy	RE	Applies between properties, within a property (e.g., mall) and in a larger group of properties. The ability of property to generate a certain level of rent based on its proximity to other commercial properties is a locational phenomenon. This can also refer to the synergy within a shopping centre.	
Land-use Designations			
Zoning	RE	Local government land use designation that applies to the property and affects any owner.	Refer to p. 13.4 of 2nd Canadian Edition of *The Appraisal of Real Estate*.
OCP designations	RE	Local government land use designation that applies to the property and affects any owner.	Refer to p. 13.4 of 2nd Canadian Edition of *The Appraisal of Real Estate*.
Building schemes	RE	A charge against property title that applies to any owner	
Other Components			
Chattels	NRE	FF&E is not considered part of the real estate. Chattel issues commonly arise with retail and accommodation properties. Chattels include FF&E such	Follow FF&E allowance in Hotel and Motel Properties Policy.

Category	Value Assigned (RE, NRE, Both)	Rationale/Comments	Action
		as TVs, linens, kitchen equipment and so on.	
Working capital	NRE	Interest expense (for working capital) in the stabilized income accounts for the stabilized cost to the owner of the working capital.	
Inventory	NRE	Inventory is not considered part of the real estate. Inventory may or may not be included in the sale (e.g., hotel consumables or the stock in the sale of a C-store).	Ensure inventory is accounted for in the sales edit process.
Government and regulatory licenses/ permits	Both	If obtaining the permit is in any way dependent on some aspect of land and/or improvements, there is no reason to account for the license/permit itself.	
Management and franchise agreements	Both	The granting of the franchise is property-dependent. There is often little or no reliable market evidence with which to value these agreements.	Follow Hotel and Motel Properties Policy. Deduct fees as an expense. Also analyze the local market to determine if a distinction is evident between "flagged" and "non-flagged" properties.
Goodwill	NRE	Goodwill, if identified in sale agreements (rarely) is typically an amount pre-determined by vendor and purchaser based on income tax considerations.	If investigation reveals that an accounting version of goodwill was intended by the parties, a NRE adjustment should not be made (most common scenario). Alternatively, in the rare case that the parties concluded a goodwill component of the real estate sale should be recognized (e.g., a value that cannot be attributable to any tangible or intangible component), a deduction may be required.

This policy is made available to the public for informational purposes only. The policy is not binding on BC Assessment. It does not constitute legal advice. If there is a conflict between this policy and the relevant legislation (or case law), the legislation (or case law) prevails.

Appendix 2: General Non-Realty Value Decision Tree