

Suggested Answers to Review and Discussion Questions: Lesson 4

1. In answering this question, students must provide their own example for how zoning could affect a given property's value.

Zoning is a means of regulation of property whereby lands are zoned, or divided into districts, for the purpose of assigning restrictions on land use and on the use, bulk, and appearance of buildings on that land.

For example, in cities across Canada there will usually be one district where the majority of high-rise office buildings are located, another area where industrial uses are located, and separate areas for single-family houses and for apartment buildings. The locations of these uses are dictated by zoning.

In conducting an appraisal, it is important to consider zoning restrictions because restrictions on the use of a plot of land can significantly affect its value. For example, an area with single-family houses could experience a rise in property values if it were rezoned to multi-family/commercial use.

2. (a) *Legal non-conforming use*: Uses and buildings that exist prior to the enactment or amendment of a zoning bylaw and do not conform to the bylaw in some respect are accorded special status as legal non-conforming uses (or alternatively, a permitted variance from existing zoning, such as a grocery store in a residential area).
- (b) *Legal conforming use*: Uses and buildings that conform to existing bylaws.

These terms differ in that legal non-conforming structures do not conform to the current bylaw. Because they were built before the bylaw came into effect, these structures can continue operating and be legally transferred. However, if the non-conforming use is terminated, abandoned, or destroyed, then any new use must conform with the bylaws. A legal non-conforming use requires special consideration by appraisers, since any renovation or expansion could alter its legal status.

Students should provide an example that illustrates their answer.

3. In completing a highest and best use analysis for a subject property, an appraiser must determine if a probable use is:
- (1) Physically possible: within the realm of possibility
 - (2) Legally permissible: falling within legal restrictions
 - (3) Financially feasible: capable of being profitable
 - (4) Maximally productive: provides the highest return for the longest period of time.

4. The *principle of consistent use* holds that land cannot be valued based on one use while the improvements are valued based on another use. Improvements must contribute to land value to have value themselves. Improvements that do not represent the land's highest and best use can have value as an interim use; alternatively, they can have no value or even negative value.

Regarding data selection, the market data applied in the approaches to value must be collected from properties with a highest and best use consistent with that of the subject.

5. The appraiser asks: (1) If the land is vacant and what use should be made of it? (2) What type of improvement (if any) should be built on the land and when?

6. To be the highest and best, a use must be legally permissible, physically possible, financially feasible, and maximally productive.
7. The size, shape, area, terrain, frontage, depth, and topography of the site; subsoil conditions, and the availability of public utilities can affect the uses to which land may be developed.
8. Private or contractual restrictions such as deeds and long-term leases, and public restrictions such as zoning, building codes, historic district controls and environmental regulations, can legally prohibit a particular use.
9. To analyze the financial feasibility of alternative highest and best uses, an appraiser estimates the future gross income that can be expected from each potential use. Vacancy and collection losses and operating expenses are subtracted from each potential gross income to obtain the likely net income from each use. Then the rate of return on invested capital can be calculated for each use.
10. An *interim use* is a temporary use to which a site or improved property is put until it is ready for its highest and best use. An interim use exists when the highest and best use is anticipated to change in the foreseeable future (five to seven years).
11. The value of the site in its present use is \$450,000. As an office building, this property would have a value of \$6,500,000. However, the cost to build the building is \$5,750,000. Therefore, the net present value of the use of the property as an office building is $\$6,500,000 - \$5,750,000 = \$750,000$. The highest and best use of the property would be for an office building as this option gives the highest net present value of the possible uses.
12. The principle of highest and best use should be considered in ALL appraisal assignments. Whether holding property, looking to purchase property, looking to sell property, or analyzing property for development, the principle of highest and best use is a crucial element in the decision-making process.
13. Yes, the size of a parcel can have an impact on its highest and best use. Certain uses may be optimal given the neighbourhood and economy of the day. However, the parcel must be sufficiently large to accommodate the particular use in question with respect to zoning issues (e.g., the zoning may specify a minimum site size, or require a certain amount of parking, which can only be accommodated on a large enough site). As well, the value of the final product will depend on the marketability - if a site is too small or too large, the marketing and end value may be affected.

The concept of "excess land" also comes into play here, as some parcels are too high for their highest and best use. In such a case, the highest and best use for the excess land may differ from that of the main parcel required for a certain use.

- (a) The purpose of estimating the highest and best use of land or a site as though vacant is to identify the use that results in maximum land value. There are two reasons for making this determination. Certain appraisal techniques require a separate land value estimate and the analysis helps to identify comparable properties.
- (b) The highest and best use of a property as improved is analyzed to identify the use of the property that is expected to produce the highest overall return for each dollar invested and to determine the feasibility of demolition and construction of a new improvement or conversion, renovation, or modernization of the property. The analysis also helps identify comparable properties.

15. The existing use will continue unless and until the land value under the site's highest and best use exceeds the value of the entire property in its existing use plus the cost to demolish the improvements.
16. An appraiser may consider a highest and best use that is not in conformity with current zoning bylaws when it appears that there will soon be changes to these existing bylaws or zoning restrictions.