MUNICIPAL PROPERTY ASSESSMENT CORPORATION

METHODOLOGY GUIDE

VALUING LARGE SPORTS STADIUMS IN ONTARIO

Valuation Date: January 1, 2016

AUGUST 2016

MUNICIPAL PROPERTY ASSESSMENT CORPORATION

August 22, 2016

The Municipal Property Assessment Corporation (MPAC) is responsible for accurately assessing and classifying property in Ontario for the purposes of municipal and education taxes.

In Ontario's assessment system, MPAC assesses your property value every four years. This year, MPAC is updating the value of every property in the province to reflect the legislated valuation date of January 1, 2016.

MPAC is committed to provide Ontario property owners, municipalities and all its stakeholders with the best possible service through transparency, predictability and accuracy in values. As part of this commitment, MPAC has defined three levels of disclosure of information in support of its delivery of this year's assessment update. This Methodology Guide is the first level of information disclosure.

This guide provides an overview of the valuation methodology undertaken by MPAC when assessing stadiums for this year's update ensuring the methodology for valuing these properties is well documented and in alignment with industry standards.

Property owners can access additional information about their own properties through aboutmyproperty.ca. Login information for aboutmyproperty.ca is provided on each Property Assessment Notice mailed this year. Additional information about MPAC can be accessed at mpac.ca.

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1.0 Introduction

The Municipal Property Assessment Corporation (MPAC) – mpac.ca – is responsible for accurately assessing and classifying property in Ontario for the purposes of municipal and education taxation.

In Ontario, property assessments are updated on the basis of a four-year assessment cycle. In 2016, MPAC will update the assessments of Ontario's nearly five million properties to reflect the legislated valuation date of January 1, 2016. Assessments updated for the 2016 base year are in effect for the 2017–2020 property tax years.

The last Assessment Update was based on a January 1, 2012, valuation date. Increases between the 2012 assessed value and the 2016 assessed value are phased in over a four-year period. Any decreases in assessment are applied immediately.

It is important to ensure that the valuation methodology applied is capable of providing a realistic estimate of current value at the relevant valuation date, which, in turn, enables all stakeholders to understand the valuation process and have confidence in the fairness and consistency of its outcome.

This Methodology Guide has been prepared for the benefit of MPAC assessors, property owners and their representatives, municipalities and their representatives, Assessment Review Board members, provincial officials, and the general public.

This guide outlines the valuation process to be followed by an assessor, including steps that require appraisal judgment. It is incumbent upon the assessor to make informed decisions throughout the valuation process when arriving at estimates in current value.

1.1 Properties Covered by This Methodology Guide

This Methodology Guide applies to large stadiums in Ontario. There are many types and qualities of sports stadiums, including:

- National Hockey League (NHL) hockey arenas
- National Basketball Association (NBA) basketball arenas
- Major League Baseball (MLB) baseball stadiums
- Canadian Football League (CFL) football stadiums
- Major League Soccer (MLS) soccer stadiums

The following MPAC property code is used to categorize the various types of sports stadiums in Ontario:

- 722 Professional sports complex

It should be noted that these are general guidelines that vary depending on the specific circumstances of a particular property.

An assessor may also make reference to additional Methodology Guides for properties that do not fall precisely within the description of the property code listed above.

1.2 Legislation

The main legislation governing the assessment of properties in Ontario for property tax purposes is contained in the Assessment Act.[1]

The Act contains important definitions and states that all property in Ontario is liable to assessment and taxation, subject to some exemptions. Section 19(1) of the Act requires that land be assessed at current value, which is defined to mean, in relation to land, "the amount of money the fee simple, if unencumbered, would realize if sold at arm's length by a willing seller to a willing buyer."

Ontario Regulation 430/15 in relation to third-party signs (billboards) was filed on December 18, 2015. To comply with the regulation, any income attributable to a third-party sign is not to be included in the valuation of any property for assessment purposes.

1.3 Classification

MPAC's role is to accurately assess and classify all properties in Ontario in accordance with the Assessment Act and its associated regulations established by the Government of Ontario. The classification of a property will determine which tax rate will be applied by the municipality or taxing authority. All properties are classified according to their use, and Ontario Regulation 282/98 of the Assessment Act sets out how various property uses are classified.

Most commercial sports stadiums are included in the Commercial Property Class in accordance with Section 5(1)1 of Ontario Regulation 282/98 as "land and vacant land that is not included in any other property class."[2] However, larger commercial sports stadiums may fall into the Professional Sports Facility Property Class in accordance with Section 14.1 of Ontario Regulation 282/98. The Professional Sports Facility Property Class only applies if the council of a

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[1] Assessment Act, R.S.O 1990, c A.31: https://www.ontario.ca/laws/statute/90a31.
[2] Ontario Regulation 282/98, GENERAL: https://www.ontario.ca/laws/regulation/980282.

municipality passes a bylaw opting to have the optional class apply. Section 14.1(1) of Ontario Regulation 282/98 requires the council of a municipality to pass a bylaw establishing the tax ratios for the Professional Sports Facility Property Class pursuant to Section 308 of the Municipal Act, 2001.[3] Note that Section 14.1(2) of Ontario Regulation 282/98 prescribes that the Professional Sports Facility Property Class includes specific roll numbers for the following facilities: Canadian Tire Centre, Air Canada Centre and Rogers Centre.

If a portion of the property is used for other purposes, the total value of the property will be apportioned between the various uses to ensure that the appropriate tax rate is applied to the relevant parts of the property. The professional sports facility property class does not include any portion of a property that offers goods or services to the public on a regular basis on days when events are not being held in the facility.

Irrespective of whether the municipality has adopted the professional sports facility property class, MPAC will still apply the optional class to the portions of the property that meet the legislative requirements.

1.4 The Use of This Methodology Guide

This Methodology Guide is intended to:

- Ensure MPAC's assessed values for these properties are fair, accurate, predictable and transparent.
- Provide direction to assessors and clear explanations to municipalities, taxpayers and Assessment Review Board members.
- Ensure that MPAC's methodology for valuing these properties is well documented and aligns with industry standards.
- Explain the thought process/decision-making process that an assessor should undertake to apply the valuation methodology.
- Ensure a consistent approach to valuing these property types.
- Support MPAC assessors in conducting their due diligence in:
  - applying Ontario's legislation and regulations
  - adhering to industry standards for market valuation in a mass appraisal environment

[3] Municipal Act, 2001, S.O. 2001, c. 25: https://www.ontario.ca/laws/statute/01m25.

It should be noted that this Methodology Guide is not intended to be a substitute for an assessor's judgment in arriving at a market value–based assessment (i.e., current value) for a particular property. However, given that the Methodology Guide explains industry standards for property assessment, conforms to valuation industry norms, and adheres to provincial legislation and regulation, MPAC assessors are expected to follow the procedures in the Methodology Guide and be able to clearly and satisfactorily justify any deviations from it.

1.5 Consultation and Disclosure

MPAC is committed to providing municipalities, taxpayers and all its stakeholders with the best possible service through transparency, predictability and accuracy. In support of this commitment, MPAC has defined three levels of disclosure as part of its delivery of the 2016 province-wide Assessment Update:

- **Level 1** – Methodology Guides explaining how MPAC approached the valuation of particular types of property
- **Level 2** – Market Valuation Reports explaining how the methodology outlined in Level 1 has been applied at the sector level for the purposes of each assessment
- **Level 3** – Property Specific Valuation Information available to property taxpayers, their representatives and municipalities

Residential property owners can access detailed information about their assessment through aboutmyproperty.ca. Login information is provided on every 2016 Property Assessment Notice mailed.

2.0 The Valuation Process

The valuation process always begins with a determination of the highest and best use of the subject property.

Any reliance upon this guide is made only after the assessor has determined that the highest and best use of the subject property is that of a large sports stadium.

Assessors determine the value of a property using one of three different approaches to value:

- the direct (sales) comparison approach
- the income approach
- the cost approach

2.1 Outline

In the **direct (sales) comparison approach**, value is indicated by recent sales of comparable properties in the market. In considering any sales evidence, it is critical to ensure that the property sold has a similar or identical highest and best use as the property to be valued.

In the **income approach** (or, more accurately, the income capitalization approach), value is indicated by a property's revenue-earning power, based on the capitalization of income. This method requires a detailed analysis of both income and expenditure, both for the property being valued and other similar properties that may have been sold, in order to ascertain the anticipated revenue and expenses, along with the relevant capitalization rate.

In the **cost approach**, value is estimated as the current cost of reproducing or replacing the improvements of the land (including buildings, structures and other taxable components), less any loss in value resulting from depreciation. The market value of the land is then added.

MPAC predominantly uses the income approach to value large sports stadiums.

A stadium that does not realize a sufficient rate of return on its invested capital may not be a suitable property to be valued using the income approach. This guide outlines the use of the income approach specifically.

The valuation method used for large sports stadiums has the following steps:

1) Determine the stabilized revenues for the stadium.

2) Deduct the stabilized operating expenses to determine the operating income (IO).

3) Deduct fixed expenses, including insurance and a reserve for replacement as a percentage of stabilized revenues.

4) Determine the net operating income (NOI) before municipal taxes.

5) Establish the capitalization rate.

6) Determine the effective tax rate (ETR) used to represent property taxes. To determine the ETR, the municipal commercial tax rate is referenced and adjusted to account for the subsequent personal property deduction from the capitalized value.

7) Calculate the effective tax rate.

8) Add the effective tax rate to the capitalization rate.

9) Capitalize the NOI into an estimate of value.

10) Deduct personal property from the capitalized value, with the result being the current value assessment.

2.2 Approach

There are three main phases in the process used by MPAC:

- data collection
- analysis of the data collected
- valuation

2.3 Data Collection

The data collection and analysis process for stadiums includes:

- general stadium data – including stadium statistics for the annual number of seats (regular, club and luxury boxes)
- stadium financial data – including income and expense statements from the stadium (reviewed for a sufficient number of years), the stadium budget and the stadium marketing/business plan
- stadium rental data – including rents for leased space and concessions

- stadium sales data
- stadium personal property data

Confidentiality

As outlined above, it is important to be aware that, in order to enable MPAC to produce an accurate valuation of the property concerned, information needs to be obtained from a variety of sources.

This will include information from MPAC's records, from the owner or operator of the property, from the municipality in which the property is located, from the assessor's visit to the property and from other sources.

All stakeholders in the property tax system have an interest in ensuring that the current value provided by MPAC is correct; in order to achieve this, it is necessary for all parties to cooperate in the provision of information.

It is appreciated that some of the information outlined above may be of a commercially sensitive nature. MPAC recognizes the need to ensure that any information provided to it is properly safeguarded and only used for the purpose for which it is supplied. Assessors must appreciate the nature of this undertaking and ensure data is treated accordingly.

If, after an appeal has been filed, MPAC receives a request for the release of actual income and expense information, or other sensitive commercial proprietary information, the usual practice is to require the person seeking the information to bring a motion before the Assessment Review Board (ARB), with notice to the third parties, requesting that the ARB order production of the requested information. The release of such information is at the discretion of the ARB and commonly accompanied by a requirement for confidentiality.

The Assessment Act outlines in Section 53(2) *that* disclosed information may be released in limited circumstances "(a) to the assessment corporation or any authorized employee of the corporation; or (b) by any person being examined as a witness in an assessment appeal or in a proceeding in court involving an assessment matter."

2.4 Data Analysis

Having carried out the data collection outlined previously, the assessor needs to analyze it and reach a conclusion regarding the appropriate valuation method to use and how it should be applied.

2.5 Valuation

Having undertaken the necessary steps outlined above, the assessor should now be in a position to apply the appropriate valuation model.

2.6 Validating the Results

Once the assessor has completed the valuation, it is necessary to carry out a series of checks to ensure that all relevant parts of the property have been included in the valuation, there has been no double-counting of any adjustments made for depreciation, the resulting valuation has been compared with any market evidence that may be available in relation to similar properties and the final valuation is in line with the valuation of other similar properties in Ontario.

3.0 The Valuation

The Income Approach

The direct capitalization method is the method used by MPAC for valuing large sports stadiums.

The two key requirements are:

- stabilized projections of net income
- capitalization rates reflecting the sports stadium market

3.1 Stadium Revenues

MPAC establishes typical and stabilized stadium annual revenues by type of stadium. In particular, MPAC will analyze:

- attendance revenue (including regular ticket sales, club seats and luxury boxes)
- space rental and concession revenue
- trends and competition

MPAC will also establish typical rents for the following operations:

- retail tenants
- media tenants
- office tenants
- restaurant tenants
- concessions

MPAC will then add stadium attendance revenues and rents from other operations to establish the stabilized potential income.[4]

[4] Though MPAC collects rental information about billboards, it is not included in the stadium's revenue.

3.2 Stadium Expenses

Similar to revenues, expenses should be reviewed for a sufficient number of years.

MPAC will establish typical and stabilized operating costs for:

- salaries and benefits
- travel and entertainment
- supplies and services
- sponsorship costs
- rent
- league assessments
- utilities
- insurance
- other costs

Financial statements for stadiums will typically include both revenue and costs for space tenants and concessions. Typical rental should be established for these operations, rather than a valuation of departmental revenue.

3.3 Stadium Net Operating Income

The next stage in the valuation process is to deduct expenses from the total stadium revenue to determine the net operating income (NOI).

MPAC then deducts income attributable to non-real estate items (e.g., reserves for stadium improvements and other intangibles) to produce the NOI attributable to the real estate.

3.4 Stadium Capitalization Rates

MPAC analyses market data for offices, shopping centres and hotels to determine a range of capitalization rates that are applied to these types of properties in each stadium market. The highest level of office building (AAA) capitalization rate is used as a starting reference point and 2 basis points are added to stadium capitalization rate to reflect the risk of these properties.

The capitalization rate is found from the formula:

$$\text{Capitalization Rate (R)} = \frac{\text{Net Operating Income (NOI)}}{\text{Sale Price (SP)}}$$

Once the net operating income has been determined, MPAC uses the capitalization rate to convert it into an indication of value.

Effective Tax Rate

When the income approach is used to assess a stadium, property taxes should not be considered as an expense item. The practice of using actual taxes as an expense would import a preconceived level of taxation based on a historical assessed value. This issue is resolved by including an effective tax rate in the capitalization rate applied to the direct capitalization income method for amusement park properties. The effective tax rate expresses the relationship between the assessed value of a property and the level of taxation within the municipality the property is located in.

The effective tax rate is calculated using the following formula:

Effective Tax Rate = Commercial Tax Rate x (100.00% – Personal Property %)

= Commercial Tax Rate x (100.00% – 10.00%)

For example, if the base capitalization rate is 9% and the commercial tax rate for the municipality concerned is 0.02897, the calculation is:

0.02897 x 90.00% = 0.026073 (or 2.61%)

Add the base rate of 9%; effective property tax rate = 9% + 2.61% = 11.61%

3.5 Personal Property

Part of the revenue generated in a stadium is attributable to personal property, including elements of furniture, fixtures and equipment (FF&E) and intangibles. For a the professional stadiums valued using the pro forma income methodology, a final deduction of 10% of indicated value is set to reflect the personal property at the stadium properties. The 10% deduction was determined by reviewing the financials and the actual chattel items at each property with the property owners and their representatives.

3.6 Sample Valuation

A sample valuation is provided at Appendix A to demonstrate the valuation approach. It should be noted that the figures used in this example are for illustrative purposes only.

3.7 Excess Land

One possible source of additional value is excess land, which is land in excess of the requirements of the stadium. Such land is generally held in anticipation of expansion. To determine excess land values, the assessor will analyze local zoning bylaws, current development of the property and market sales of similar parcels.

3.8 Quality Control

Having arrived at the value of a stadium through the above process, the MPAC assessor will check the outcome of the valuation to ensure no errors have been made and that the value is in line with the valuation of other similar stadiums.

3.9 Conclusion

This guide sets out how MPAC assessors approach the valuation of large sports stadiums for property assessment purposes.

Although it outlines the general approach adopted, it does not replace the assessor's judgment and there may be some cases where the assessor adopts a different approach for justifiable reasons.

For further information about MPAC's role, please visit [mpac.ca.](https://www.mpac.ca)

Appendix A: Example of an Income Valuation of a Large Sports Stadium

Revenue				
Team Rent	20,000,000			
Food & Beverage	6,000,000			
Corporate Sponsorships	10,000,000			
Luxury Suites	12,000,000			
Premium Seating	8,000,000			
Merchandise	4,400,000			
Event License Fees/Commissions	2,800,000			
Naming Rights	1,600,000			
Other Revenue	7,200,000			
Total Revenue		72,000,000		
Expenses				
Operating Expenses				
Salaries & Benefits	26,400,000			
Travel & Entertainment	200,000			
Supplies & Services	8,000,000			
Sponsorship Costs	1,000,000			
Rent	1,600,000			
League Assessments	200,000			
Utilities	2,600,000			
Insurance	1,200,000			
Other	800,000			
Total Operating Expenses		42,000,000		
Fixed Charges		+ 4,800,000		
Total Expenses			– 46,800,000	
Net Operating Income			25,200,000	
Capitalized	Cap Rate (Adjusted for Tax)			9.25%
Indicated Total Value				272,432,432
Less Personal Property	@ 10%			27,243,243
CVA				$245,189,189
Rounded				**$245,189,000**