MUNICIPAL
PROPERTY
ASSESSMENT
CORPORATION

METHODOLOGY GUIDE

ASSESSING RETIREMENT HOMES IN ONTARIO

Valuation Date: January 1, 2016

JUNE 2016

MUNICIPAL PROPERTY ASSESSMENT CORPORATION

April 15, 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 retirement home properties 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 valuation date 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 retirement homes in Ontario.

Retirement home properties range from small-scale facilities with limited amenities to those with luxury accommodations, extensive amenities and a wide range of services. Besides living space, retirement homes may offer voluntary or mandatory meal plans, various levels of care services and scheduled activity or entertainment options for their residents.

The following MPAC property codes are used to categorize the various types of retirement homes in Ontario:

- 623 Continuum of care seniors' facility

- 624 Retirement/nursing home (combined)
- 626 Old age/retirement home

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 one of the property codes 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.”

The Retirement Homes Act, 2010 defines a retirement home to mean, “a residential complex or the part of a residential complex that is:

i) occupied primarily by persons who are 65 years of age or older,

ii) occupied or intended to be occupied by at least the prescribed number of persons who are not related to the operator of the home, and

iii) where the operator of the home makes at least two care services available, directly or indirectly, to the residents.”

In Ontario, the Retirement Home Regulatory Authority (RHRA), created under the Retirement Homes 2010 Act, set a deadline of July 3, 2012, for existing residences to become licensed. To receive approval from the RHRA, a residence has to meet the definition of a retirement home as set out in the Act. The regulator also has the mandate of performing ongoing inspections of residences, to ensure they continue to comply with licensing requirements and safety standards.

Under the Act, a residential complex that meets the definition of “retirement home” in the Act now requires a licence to operate in Ontario.

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[1] Assessment Act, R.S.O 1990, c A.31: https://www.ontario.ca/laws/statute/90a31.

A retirement home, for the purposes of the Act, is a residential complex or the part of a residential complex that meets the following criteria:

- occupied primarily by persons who are 65 years or older
- occupied or intended to be occupied by at least six persons who are not related to the operator of the home
- makes at least two of the 13 care services set out in the Act (listed below) available, directly or indirectly, to residents

Care services, for the purposes of the Act, are as follows:

- administration of a drug
- assistance with feeding
- assistance with bathing
- continence care
- assistance with dressing
- assistance with personal hygiene
- assistance with ambulation
- the provision of a meal
- the provision of a dementia care program
- the provision of a skin and wound care program
- any service that a member of the College of Physicians and Surgeons of Ontario provides while engaging in the practice of medicine
- any service that a member of the College of Nurses of Ontario provides while engaging in the practice of nursing
- any service that a member of the Ontario College of Pharmacists provides while engaging in the practice of pharmacy

The Act sets out exemptions to the definition of a retirement home, including premises that are governed or funded under the Developmental Services Act, the Homes for Special Care Act, and the Long-Term Care Homes Act, 2007.

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.

The classification of retirement homes is covered in section 3(1)1.xiv of O. Reg. 282/98 which includes in the residential property class, "a retirement home as defined in subsection 2(1) of the Retirement Homes Act, 2010."

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.

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

It should be noted that this Methodology Guide is not intended to be a substitute for an assessor's judgment in arriving at a current value assessment 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

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 retirement home.

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 uses the income capitalization approach to value retirement homes. The method of income capitalization used is the direct capitalization method.

This approach estimates the annual revenue that can be generated by a retirement home, deducts annual expenses necessary to support the revenue stream, and then using the direct capitalization method, applies a capitalization rate to the net income to arrive at a current value for the property.

The direct capitalization method applied to retirement homes involves the following steps:

1) Determine the potential gross income (PGI).

2) Adjust for typical vacancy based on the location and physical attributes of the retirement home to determine the effective gross income (EGI).

3) Deduct operating expenses to determine the operating income (OI).

4) Deduct fixed expenses, including insurance and a reserve for replacement as a percentage of EGI.

5) Determine net operating income (NOI) before municipal taxes.

6) Select the appropriate capitalization rate from sales data.

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

8) Calculate the effective tax rate.

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

10) Capitalize the NOI into an estimate of value.

11) 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 required for retirement home valuations is collected from a number of sources:

- MPAC conducts periodic inspections of retirement homes.
- Property owners are required to provide MPAC with information including actual income and expenses.

- MPAC collects information about sales and transfers of retirement homes.
- Published information relating to retirement homes.

MPAC generally collects the following types of data for retirement homes:

- Physical data relating to location, age, condition, design, quality, number of units, size, and amenities
- Municipal data relating to land use requirements
- Financial data including revenue, expenses and vacancy levels
- Sales 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.

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. This requires the following steps:

- Stratify retirement home properties based on location, age, condition, design, quality, amenities and services.
- Analyze data in order to establish valuation parameters.
- Establish typical revenue levels for each retirement home.
- Establish typical market vacancy rates based on the location and physical attributes of properties within the market.
- Establish typical operating expenses.
- Establish an appropriate reserve for replacement.
- Establish appropriate capitalization rates.
- Establish effective tax rates (ETR) used to represent property taxes.
- Establish adjustments for personal property.
- Summarize the valuation parameters derived from the data analysis.

2.5 Valuation

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

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, 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.

3.0 The Valuation

3.1 Determining Potential Gross Income

The potential gross income (PGI) represents the amount of annual income a retirement home would be capable of producing if it is at full occupancy and at market rents as of the valuation date of January 1, 2016. The approach taken to determine the PGI is influenced by the type, quality and quantity of information available to the assessor.

Where Actual Revenue Data Is Available

First, the retirement home's actual revenue sources are analyzed to ensure the revenue represents stabilized levels; and secondly, the stabilized revenue levels of the property are compared with similar properties to ensure the revenue reflects market levels. Where current revenue information is available, is stabilized and a good indicator of the market, the potential revenue levels are calculated from this data.

Where Revenue Data is Not Available or Is Non-Market

For retirement homes with incomplete data, revenue levels are determined by analyzing and applying typical market revenue levels indicated by similar retirement homes. The market revenue levels can be established by analyzing the income statements and rent rolls received from similar properties.

Figure 3.1.1 – Analysis of Rents by Residential Unit Type

Unit	Unit Count	Daily Rate	Monthly Rate	Total (Annual)	Per Unit
Studio	20	$65.75	$2,000	$480,000	$24,000
1 Bedroom	100	$85.48	$2,600	$3,120,000	$31,200
2 Bedroom	80	$105.20	$3,200	$3,072,000	$38,400
Total Unit Count	200		**Potential Gross Income**	**$6,672,000**	

It should be noted that rates and other information shown above are for illustrative purposes only.

Revenue Structure

Retirement homes typically include accommodation, meals and an established level of care services within the standard monthly rent charged to residents. The accommodation, meals and services are included within the unit revenue example above.

Other Income

Retirement homes may have a number of sources of revenue in addition to the typical monthly charges to residents. Ancillary income may include items such as additional personal care, guest meals, respite stays, commercial rental and parking charges. As such income is affected by vacancy levels and unrecovered operating expenses, it should be added to form part of the PGI.

Figure 3.1.2 – Example of Potential Gross Income Calculation

Unit Type	Unit Count	Daily Rate	Monthly Rate	Total (Annual)	Per Unit
Studio	20	$65.75	$2,000	$480,000	$24,000
1 Bedroom	100	$85.48	$2,600	$3,120,000	$31,200
2 Bedroom	80	$105.20	$3,200	$3,072,000	$38,400
Total Unit Count	200		**Potential Gross Income**	**$6,672,000**	
Other Income					
Sundry				$30,400	$152
Rental Income				$0	$0
Respite & Guest Fees				$6,000	$30
Parking				$8,000	$40
Total Other Revenue				**$44,400**	**$222**
Total Potential Gross Income				**$6,716,400**	**$33,582**

It should be noted that rates and other information shown above are for illustrative purposes only.

3.2 Establishing Effective Gross Income

Once a property's PGI has been established, the next step is to determine the effective gross income (EGI). EGI is the amount of income that an owner expects to receive over the long term; this is the PGI reduced as a result of expected vacancy and bad debt.

Effective Gross Income = Potential Gross Income – Vacancy & Bad Debt

Market Vacancy

The revenue generated from a retirement home relies on market demographics and is sensitive to changes in the supply of retirement home and long-term care beds.

As such, a retirement home's operating income is highly correlated to its value. A short-term change in either demand or supply may produce an immediate and corresponding fall or rise in income. Market vacancy reflects the amount of space that is typically vacant for a given type of retirement home property. A number of issues arise when considering vacancies:

- A vacancy estimate is intended to reflect the likely average for a property type over a typical holding period and recognizes that, because of economic cycles, there will be periods when demand is good and times when demand softens.
- The location and physical attributes of each retirement home affect vacancy levels.
- Annual vacancy rates at individual retirement homes can differ from the norm.
- Not all categories of units experience the same vacancy conditions. The assessor may have to incorporate more than one vacancy rate: a rate for the retirement home units and a rate for non-retirement home units.

In addition to income and expense information, MPAC also requests actual vacancy information from retirement home property owners. In cases where actual vacancy information for analysis is limited, other sources of data are available for reference. For example, the Canada Mortgage and Housing Corporation (CMHC) provides an annual senior housing survey for various markets in Ontario.

Establishing the Typical Market Vacancy Rate

MPAC assessors determine vacancy rates by calculating the percentage of gross income typically lost due to vacancy. When calculating vacancy based on lost income, the assessor applies market (typical) rental rates and calculates vacancy as a percentage of the total income. The vacancy rate is the ratio of total income forgone as of the valuation date as a percentage of the total potential income.

Bad Debt

Bad debt represents rental and other payments that the landlord cannot collect from the tenants. Loss of Income due to bad debt is typically minimal in relation to the overall gross income of retirement home properties. Vacancy and bad debt are typically included as a single blended rate.

Determining EGI

The approach MPAC uses to determine a property's EGI is as follows:

1) Start with the PGI.
2) Deduct vacancy allowance. When differentiating the vacancy rate for residential units and non-residential units, the assessor will deduct the appropriate amount from the income generated by that class of unit.
3) The result is the EGI.

Figure 3.2: Example of EGI Calculation

			Per Unit
Potential Gross Income		**$6,716,400**	**$33,582**
Vacancy & Bad Debt	5% PGI	–$335,820	$1,679
Effective Gross Income		**$6,380,580**	**$31,903**

It should be noted that rates and other information shown above are for illustrative purposes only.

Note also that unless there are extenuating circumstances, market vacancy rates should be used as opposed to actual vacancy rates in order to derive the appropriate deduction for vacancy.

3.3 Establishing Net Operating Income

The objective is to determine the property's net operating income (NOI) so that its current value can be established using the income approach. The process begins by establishing the expected potential income, then determining the effective income by making a deduction for typical vacancy. The final step is to adjust the income by deducting the expenses necessary to maintain the income stream.

Net Operating Income = Effective Gross Income – Operating & Fixed Expenses

Operating Expenses

Stabilizing Income and Expenses

Retirement home income and expenses can vary from one year to the next. Because the valuation of retirement homes considers the income achievable in the long term, MPAC excludes abnormal expenses from the analysis.

MPAC reviews several years of income and expense data in order to stabilize income and expense levels. Stabilized results produce a more reliable reflection of a retirement home's performance as the basis of a transaction between vendor and purchaser.

In a typical retirement home, tenants are on gross leases and the expenses necessary to operate the facility are paid by the landlord.

It is possible to express operating expenses by individual expense category or as an aggregate deduction. The deduction for operating expenses is expressed as a percentage of the EGI. It is also necessary to deduct a management fee as a percentage of EGI within the operating expense category.

Fixed Expenses

In addition to operating expenses, fixed expenses are also deducted. The fixed expense category includes insurance and a reserve for replacement.

Reserve for Replacement

Furniture, fixtures and equipment (FF&E) are required for the operation of a retirement home and need to be replaced regularly. These expenditures take the form of a capital expense (as opposed to a regular annual maintenance expense). A deduction, called the *reserve for replacement*, to account for the periodic replacement of FF&E is applied. This deduction is recognized as a return of the capital necessary to acquire the personal property.

Structural Repairs

Structural repairs (not regular building maintenance) to retirement homes are occasionally required. The determination of NOI should not be unduly distorted by large, one-time or infrequent expense items, such as major structural repairs. Instead of accounting for these items as an expense, the valuation approach includes this influence on value as part of the determination of the overall capitalization rate. The rationale for this is that retirement homes are purchased with the knowledge that repairs are required from time to time and, therefore, the purchase price takes into account these expected future expenditures.

Property Taxes

When the income approach is used to value a retirement home for property taxation purposes, actual property taxes are not considered as an expense item. The purpose of valuations under the Assessment Act is to establish a current value that forms part of the property tax base for a specific municipality. The practice of using actual taxes as an expense would import a predetermined level of taxation based on a historical assessed value. This problem is resolved by including an effective tax rate within the overall capitalization rate applied to retirement home pro forma valuations.

Calculating NOI

Analysis of income and expense returns will provide some insight as to the typical level of operating expenses. Once complete, the assessor deducts the operating expenses and fixed expenses, including the reserve for replacement. Figure 3.4 shows the approach to converting EGI into NOI.

Figure 3.3: Example of NOI Calculation

Effective Gross Income				**$6,380,580**	
		% EGI			**Per Unit**
Operating Expenses		60%		–$3,828,348	$19,142
Operating Income				**$2,552,232**	$12,761
Fixed Expenses					
	Insurance	0.5%	$31,903		$159
	Reserve for Replacement	2%	$127,612		$638
	Total Fixed Expenses			–$159,515	
Net Income Before Property Taxes				**$2,292,717**	**$11,964**

It should be noted that rates and other information shown above are for illustrative purposes only.

3.4 Capitalizing the Net Operating Income into Value

Once the NOI has been established, the assessor's final step is to select the appropriate capitalization rate to convert the income into a present value.

The assessor will establish the capitalization rate by studying sales of properties that present similar investment opportunities and, therefore, similar income profiles. An income profile is the degree of risk, as well as the potential for growth, associated with the income stream.

Selecting the Appropriate Capitalization Rate

Selection of an appropriate capitalization rate is essential to the production of a proper estimate of value for retirement home properties. Selecting a rate considers such factors as age, quality, state of repair and location of the property, in comparison to the average or typical property.

Retirement home sale prices and income information are analyzed to ascertain the capitalization rate for each transaction. Capitalization rates reflect the overall relationship between the net income of a retirement home and its sale price.

When capitalization rates are derived from comparable sales, the assessor will apply the capitalization rate in the same manner to the property that is being valued. For example, if a reserve for replacement is used to determine NOI within the capitalization rate calculation, it is also necessary to use a reserve for replacement allowance to calculate net income for the retirement home that is being valued.

Effective Tax Rate

As mentioned earlier, retirement home valuations do not include property taxes as an expense that can be deducted for property assessment purposes. An effective tax rate is applied within the overall capitalization rate to reflect the burden of property taxes. The effective tax rate expresses the relationship between the assessed value of a property and the level of taxation within the municipality where the property is located.

The effective tax rate calculation for retirement home properties is as follows:

Effective Tax Rate = Residential Tax Rate x 90% Personal Property Adjustment

An explanation of the personal property adjustment within the effective tax rate follows:

The income stream of a retirement home property includes income derived from real property and income derived from personal property. As a result, the total capitalized value derived from an income approach valuation includes real property (which is subject to municipal taxation) and personal property (which is not subject to municipal taxation).

In order to arrive at the current value assessments of retirement homes, the amount deducted for personal property is 10% of the total capitalized income value (including personal property). The amount of the deduction is based upon historical consultations with stakeholders who continue to generally agree that this is the appropriate amount to deduct for personal property. Since the personal property value deducted after capitalization is not subject to property taxes, it is necessary to adjust the effective tax rate used in the overall capitalization rate by a corresponding amount. As a result, a 10% adjustment is applied (90% of the residential tax rate) in order to account for the subsequent 10% deduction of personal property value.

Figure 3.4: Capitalization of Net Income into Value

Net Income Before Property Taxes			**$2,292,717**		
				Per Unit	**% Value**
Capitalization Rate					
Basic Rate	8.00%				
Tax Rate	1.11%				
Effective Tax Rate	1.00%				
Overall Rate	**9.00%**				
Value			**$25,474,633**	**$127,373**	
		Personal Property	–$2,547,463	$12,737	10%
Net Value			**$22,927,170**	$114,636	90%
		Rounded	**$22,927,000**	$114,635	

It should be noted that rates and other information shown above are for illustrative purposes only.

3.5 Current Value Assessment

The final step in the process is to consolidate a current value assessment for the property. Once the determination of value by the income approach has been completed, MPAC's assessor will consider whether there is any other value in the real estate that has not been captured by the analysis of income.

Adding Other Components of Value

There may be properties where the value is not entirely captured by the application of the income approach. An adjustment to the income value may be required in some cases.

Excess Land

Excess land is land that is surplus to current needs. This land is not captured by the income approach, as the rents and other payments made go to support all of the real estate elements needed to operate the retirement home. Land that is not required to operate the retirement home is surplus, or excess, to current needs. The value of excess land depends on its location within the site and how well it suits future development.

Such surplus land would have to be valued separately and added to the retirement home's current value assessment.

Before arriving at an excess land conclusion, MPAC's assessor will usually carry out a site inspection to ensure that additional development would be possible.

The determination of excess land involves a review of current zoning by-laws as well as the current density and configuration of the property. The rate to be applied to value excess land is typically derived using market sales studies of vacant land sites.

Sample Valuation

An example of a completed valuation, is shown as Appendix A.

3.6 Quality Control

Having arrived at the value of the retirement home through the above process, MPAC 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 retirement homes.

3.7 Conclusion

This guide sets out how MPAC assessors approach the valuation of retirement homes 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, please visit mpac.ca.

Appendix A: Retirement Home Valuation – Example

Room Type	Rooms	Beds	Daily Rate	Total Annual	Per Room
Studio - Regular	40	40	70.00	1,022,000	25,550
Studio - Large	20	20	80.00	584,000	29,200
1 Bedroom - Regular	30	30	100.00	1,095,000	36,500
1 Bedroom - Large	10	10	115.00	419,750	41,975
1 Bedroom - 2nd Occupant		10	30.00	109,500	
	100	**110**	**80.45**	**3,230,250**	**32,303**
Revenue		**% PGI**	**Per Room**	**Per Bed**	**Per Diem**
Potential Bed Revenue	**3,230,250**	**99.40%**	32,303	29,366	80.45
Assisted Living	10,000	0.31%	100	91	0.25
Parking	4,000	0.12%	40	36	0.10
Guest Fees	3,000	0.09%	30	27	0.07
Other	2,500	0.08%	25	23	0.06
Potential Ancillary Revenue	**19,500**	**0.60%**	195	177	**0.49**
Potential Gross Income	**3,249,750**	**100.00%**	**32,498**	**29,543**	**80.94**
Less Vacancy & Collection	227,483	7%	2,275	2,068	5.67
Effective Gross Income	**3,022,268**	**93.00%**	**30,223**	**27,475**	**75.27**
Operating Expenses		**% EGI**			
Operating Expenses	**1,722,692**	57.00%	**17,227**	**15,661**	**42.91**
Management Fee	151,113	5.00%	1,511	1,374	3.76
Total Operating Expenses	**1,873,806**	**62.00%**	**18,738**	**17,035**	**46.67**
Income Before Fixed Charges	**1,148,462**	**38.00%**	**11,485**	**10,441**	**28.60**
Fixed Charges					
Insurance	30,223	1.00%	302	275	0.75
Reserve for Replacement	60,445	2.00%	604	550	1.51
Total Fixed Charges	**90,668**	**3.00%**	**907**	**824**	**2.26**
Net Operating Income	**1,057,794**	**35.00%**	**10,578**	**9,616**	**26.35**
Capitalization:					
Base Capitalization Rate	7.50%				
Effective Tax Rate	1.20%				
Overall Capitalization Rate	8.70%		Per Room	Per Bed	
Indicated Value	$12,158,547		$121,585	$110,532	
Less: Personal Property	$1,215,855	(10%)	$12,159	$11,053	
Net Realty Value	**$10,942,000**	(Rounded)	$109,420	$99,473	