METHODOLOGY GUIDE

VALUING SEASONAL CAMPGROUNDS 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 campground 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 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 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 campgrounds in Ontario. There are a wide variety of property types that will have a portion or all of the property used as a campground. The following MPAC property codes are used to categorize the various types of campgrounds in Ontario:

- 382 Mobile home park (more than one mobile home on a parcel of land, which is a mobile park operation)
- 492 Marina located on waterfront (defined as a commercial facility for the maintenance, storage, service or sale of watercraft)
- 486 Campground

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 what property is taxable and how it should be valued. The Act requires that land be assessed based on its current value, which is defined in Section 19(1) 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.” Land is defined in the Act to include “all buildings, or any part of any building, and all structures, machinery and fixtures erected or placed upon, in, over, under or affixed to land.”

On January 14, 2008, the Ontario Court of Appeal ruled that trailers located in campgrounds are assessable in the name of the owner of the underlying land. Only those trailers that are deemed to be permanent structures are assessable. In determining whether a trailer is assessable or not, MPAC considers whether: the trailer is greater than 8’6” wide, or the trailer is less than 8’6” wide but has an attachment making the trailer immobile without its removal. To further establish the degree of permanence of the trailer MPAC also reviews information related to the following:

- the existence of a foundation or supporting structure
- whether the undercarriage has been removed, making the trailer immobile
- permanent connections to water
- electricity and waste disposal
- whether the unit’s tow tongue has been removed
- whether the unit would require an oversize permit for road travel

Note: The Residential Tenancies Act, which governs tenant/landlord relationships, does not apply to campgrounds and trailer parks.

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

The Minister of Finance filed Ontario Regulation 430/15 on December 18, 2015, which added additional rules affecting the valuation and classification of properties on which a third-party sign (billboard) is located. To comply with the regulation, the income attributable to a third-party sign will not 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.

The classification of campgrounds is covered in Section 3(1)1.ix of Ontario Regulation 282/98, which includes in the Residential Property Class "land used for residential on a seasonal basis, including campgrounds."[2]

Some portions of the site may be considered part of other property classes, depending on the use. These uses could include:

- commercial
- managed forest
- conservation
- vacant/excess land
- residential site
- recreational/waterfront
- farm

If a portion of the property is used for other purposes, it may be necessary to value those components separately and sum the component values to achieve the correct total current value. It may also be necessary to apportion the total value of the property between the various uses to ensure that the appropriate tax rate is applied to the relevant parts of the property.

[2] Ontario Regulation 282/98, GENERAL: https://www.ontario.ca/laws/regulation/980282.

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 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

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 campground.

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 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 cost approach to value campgrounds. This approach separately values improvements and land to produce a current value for the property. The cost approach for campground properties has the following steps:

- Determine the replacement cost new (RCN) of campground buildings and trailers.
- Determine the physical depreciation of campground buildings and trailers.
- Determine functional obsolescence for campground buildings and trailers.

- Determine external obsolescence for campground buildings and trailers.
- Determine the net improvement value for campground buildings and trailers.
- Determine the RCN of campground site improvements.
- Determine the physical depreciation of campground site improvements.
- Determine functional obsolescence for campground site improvements.
- Determine external obsolescence for campground site improvements.
- Determine the net improvement value for campground site improvements.
- Determine the land value for campground land.
- Add the values for other purposes (i.e., commercial, managed forest, conservation, residential, recreational/waterfront, excess land, farmland).
- Determine the current value assessment.

2.2 Approach

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

- data collection
- analysis of the data collected
- valuation

2.3 Data Collection

The data required for campground valuations come from a number of sources:

- MPAC conducts periodic inspections of campgrounds.
- MPAC also collects information about sales and transfers of campgrounds.
- As trailer sales are not registered at the land registry office, MPAC tries to collect this data from the property owner.
- There are a number of guides and other published information about campgrounds.

MPAC generally collects the following types of data for campgrounds:

- general data
- property description
- sales data
- trailer data
- site information

Campground Land

A campground site may include the following use categories: campground, commercial, managed forest, conservation, vacant/excess land, residential site, recreational/waterfront and farm land.

Campground Site Improvements and Secondary Structures

A campground site may include the following improvements and secondary structures:

- clearing, grading and road development
- sewage disposal system
- water facility
- electrical hoop
- trailers (categorized by type, site location, park or recreation vehicle)
- washrooms
- pools
- office
- concession
- storage
- parking

- paving
- fencing

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.

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

3.1 Cost Approach Overview

The theory behind the cost approach to value follows the principle of substitution: the value of a property is equal to the amount it would cost to replace it with a substitute of equal utility.

There are two principle tasks in estimating market value using the cost approach: value the land and value the improvements.

Value the Improvements

Valuing improvements involves the following steps:

1. Collect the physical and descriptive data about the campground site. Inspect the buildings, trailers and other improvements, quantify areas, note conditions and analyze the utility.

2. Quantify the building and trailer areas from plans and layouts or, if necessary, during the property inspection.

3. Using primarily MPAC's automated cost system (ACS), estimate the costs new of the assessable improvements as of the valuation date.

4. Deduct from cost new value an amount reflecting all forms of depreciation, which may include:

    - physical (age-life depreciation)

    - functional obsolescence (curable or incurable)

    - external obsolescence (economic and locational obsolescence)

The resulting value will be an estimate of the contribution of the improvements to the market value of the subject, depreciated for all causes.

Value the Land

Land value is usually established through analysis of comparable market sales data. Comparable sales of campground sites are used wherever possible to determine land values. The valuation method used to derive the land value is the direct comparison approach.

MPAC's assessor will normally assign a separate value to each type of land use, based on the analysis of actual land sales.

Final Value

The sum of land value plus improvement value is the estimated current value of the subject location.

3.2 Establishing Costs New

Three approaches can be used to establish costs new:

- historical construction cost (useful for relatively new campgrounds, built within 10 years)
- reproduction cost techniques (used more often in analyzing unusual and/or special purpose building improvements)
- replacement cost techniques (applied in the analysis of typical building improvements and campground improvements)

Depending on the functional utility of the campground, MPAC's assessor will select the most relevant option for the subject property.

3.3 Deducting Depreciation/Obsolescence

Depreciation may include physical deterioration due to age, condition and/or use of the property. Depreciation may also include obsolescence.

Obsolescence reflects the abnormal depreciation that arises in some properties due to functional and/or externally generated economic problems.

Functional obsolescence can be the result of numerous factors, including poor or outdated designs, inadequate areas, excess operating costs, etc. Obsolescence is not related to the age of the property but to its ability to adequately perform its intended functions.

To determine whether a property is obsolete, ask the question: "Could the existing facility be replaced with a more modern, efficient substitute, and if so, what would this modern facility include?"

The assessor must have knowledge of current trends and building designs for campgrounds to recognize obsolescence. Functional obsolescence can usually be recognized through poor design and layout, poor or inferior construction and the existence of excess operating costs.

External obsolescence results from a change of circumstances outside the control of the campground owner. This could be a large-scale factor such as economic recession or a more localized factor such as a new campground being constructed within the locality, which takes away some of the business from the campground being valued.

There are a variety of methods that can be used to quantify depreciation. However, if the assessor uses different methods, it is also important to avoid duplication.

After the amount and degree of depreciation, if any, have been determined and quantified, the end result should reflect the replacement cost new of the building improvements less any depreciation (RCNLD) found in the present improvements.

3.4 Market Value Conclusion

Adding the value of the land plus the value of the depreciated building and site improvements produces the market value of the property based on the cost approach.

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 using the cost approach has been completed, the assessor will consider whether there is any other value in the real estate that has not been captured by the analysis.

Add Other Components of Value

There may be campgrounds where the value is not entirely captured by the application of the cost approach. For example, there may be excess land available that has not been included in the valuation of the main campground.

Excess Land

Excess land is land that is surplus to current needs. The value of excess land depends on its location within the site and how well it suits future developments. Such surplus land would have to be valued separately and added to the current value assessment arrived at for the campground.

Before arriving at an excess land conclusion, a site inspection is required 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 coverage 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.

A simplified example of a campground valuation on the cost approach is shown at Appendix A.

3.6 Conclusion

This guide sets out how MPAC assessors approach the valuation of campgrounds for property tax 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.

Appendices

Appendix A: Simplified Example of Campground Valuation

Buildings	**Replacement Cost New (RCN)**	**Depreciation**	**RCN Less Depreciation (RCNLD)**	**Subtotal**
B1	120,000	40%	72,000	
B2	80,000	50%	40,000	
B3	70,000	60%	28,000	
B4	20,000	40%	12,000	
B5	60,000	50%	30,000	182,000
Trailers				
T1	50,000	60%	20,000	
T2	40,000	40%	24,000	
T3	48,000	50%	24,000	
T4	36,000	70%	10,800	
T5	52,000	50%	26,000	104,800
Site Improvements	480,000	50%	240,000	240,000
Land				1,200,000
Total				1,726,800
CVA				**$1,726,000**