



ASSESSMENT OF Waterfront Property

The mandate of BC Assessment is to produce uniform property assessments that form the basis for local and provincial taxation, while providing information to assist people when making real estate decisions. Local and provincial taxing jurisdictions set tax rates and collect property taxes.

BC Assessment produces an annual assessment roll for about 1.7 million properties in British Columbia. Assessed value for the majority of these properties is the market value as of July 1 of the previous year. Over 57,000 of these properties are located on lakes, rivers, or tidal waters.

Real estate appraisers define markets as the behaviour of buyers, sellers, lenders, and others involved in dealing with

defined types of real estate products with specific features or benefits. The broad trend for waterfront property markets is continued growth in values, almost everywhere in BC, even in regions where general residential markets are flat or growing at modest rates. In fact, in many areas, such as southern Vancouver Island, waterfront property values continue to escalate at a much higher rate than non-waterfront residential values.



A common type of alteration of the High Water Mark to protect the property from wave erosion



Unique Improvements: the very unique high end homes often associated with water frontage

The key factor driving the continued increase in values is a strong and broad demand for a scarce commodity.

As local and provincial government land-use controls have evolved to protect water quality and natural values, the process for developing new waterfront subdivisions has become very complex, time consuming, and expensive in most parts of BC. Few new waterfront lots have been added to the existing supply in relation to conventional non-waterfront residential subdivisions. On the demand side, there continues to be a strong interest in almost all types of waterfront property in remote and urban settings, given our innate desire or attraction to water and similar natural settings.

The long-term strength of waterfront markets is a theme commonly repeated by real estate literature and the general media. Waterfront is also commonly promoted and perceived by investors as a real estate “hedge” against inflation. As reported recently by Victoria’s CHEK TV, major investment in waterfront properties is occurring in the general area as investors replace small, older cottages and homes with large, high-end homes costing \$200+ per sq foot.

Since appraisers must understand market behaviour to determine the value of real estate, it is important to identify the key factors that motivate buyers and sellers of this unique commodity. BC Assessment has a wide range of resources and computerized tools to assist appraisal staff

in understanding market behaviour, including Land Title Office transaction records, MLS records, survey and subdivision plans, building permits, and other economic and legal data.

Appraisers also network with the real estate community, including Realtors, Notaries, builders, and others to ensure their technical analysis represents market behaviour.

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It may seem obvious that the physical features of a waterfront lot—such as quality, shape, and length of the water-frontage—will be key factors affecting value. For example, Realtors commonly advertise waterfront property as “low-bank,” easy beach access, or scenic vista or they highlight the quality of near shore area (navigable, suitable for moorage or docks) and desirability for marine recreation use. Features that drive some markets, however, may be less important in others.

For example, on some larger BC Interior lakes well known for outdoor recreation, the availability of good road access, power, and telephone are important factors. In small specialized markets for remote or fly-in fishing and wilderness

lakes, the lack of access and primitive wilderness opportunity is a plus.

Other waterfront properties on islands, particularly in the south coast, offer a wilderness setting but may still have limited access through water-taxi. On property fronting tidal waters, common considerations are exposure to wind, opportunity for docks and safe anchorages, proximity and the nature of other marine uses, and potential difficulties with construction and waste disposal (exposed bedrock).

In examining evidence of market behaviour, the best indicators are sales of waterfront properties. Appraisers are looking for property sales that are most similar or comparable to the property being valued in terms of the motivation of the buyers and sellers, timing of the transaction, and physical attributes. The difficulty appraisers encounter is that there are generally differences between the sold property and property being appraised. Consequently, some adjustments must be made to the sold property value “indicators” to represent these differences.

Since the size of waterfront property markets and corresponding property sales volumes is quite low relative to conventional residential real estate markets, waterfront valuation is particularly challenging for appraisers. Not only are there relatively few sales, the sales that do occur often include unique improvements—from rustic cottages to high-end homes—that restrict comparability with other waterfront properties.

In addition to the issue of availability of market evidence, appraisers must address the unique legal situation of property where one or more boundaries of a waterfront lot will be defined by water. In the case of land fronting tidal bodies, the property boundary is commonly associated with the high-water mark (HWM) defined by high tide. In the case of all other property fronting streams, lakes, or rivers, the boundary is defined by the natural boundary.

Things get more complex when the current natural boundary (HWM) is different than the boundary shown on legal survey plans. This issue arises most commonly with river or stream frontage property, given that the natural boundaries



Willows Beach: road and public parking area between the water and property boundary

are subject to changes according to forces of nature. These natural processes, commonly referred to as accretion and erosion, are considered to impact property boundaries through long-term and gradual processes, not by material deposited through sudden floods or dumping of fill.

Defining what is legally owned is difficult for appraisers when waterfront owners creatively alter the natural water boundary by adding concrete or rock abutments to prevent erosion, dump fill to create a beach area, or construct various improvements such as boathouses, decks, or houses extending beyond the original property boundary.

Another interesting issue for appraisers is the presence of publicly owned land between waterfront property and the water body. These strips of public land may be dedicated roads, green space, or walkway dedications to preserve public access to the beach or natural "riparian" area. In addition to the problem of finding representative market information for these situations, the appraiser must decide at what point the nature of the public dedication means that property is no longer waterfront but waterview.

The unique nature of waterfront property and limited markets for this scarce real estate product challenge appraisers to work hard at determining market value. Fee or private industry appraisers typically value only one property at a time. BC Assessment appraisal staff, however, must apply their in-depth knowledge of local markets and valuation tools to ensure that all these properties are uniformly and accurately assessed, on an annual basis. ▲

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