

SPRINGBANK DRIVE

Leo MacDonald prepared this case under the supervision of Professor Greg Zaric solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

Ivey Management Services prohibits any form of reproduction, storage or transmittal without its written permission. Reproduction of this material is not covered under authorization by any reproduction rights organization. To order copies or request permission to reproduce materials, contact Ivey Publishing, Ivey Management Services, c/o Richard Ivey School of Business, The University of Western Ontario, London, Ontario, Canada, N6A 3K7; phone (519) 661-3208; fax (519) 661-3882; e-mail cases@ivey.uwo.ca.

Copyright © 2006, Ivey Management Services

Version: (A) 2009-09-17

SPRINGBANK DRIVE

In June 2003, George Canning, owner of Canning Consultants Inc., was retained by the City of London. The city was expropriating a portion of property as part of a project to widen Springbank Drive between Wharncliffe Road and Wonderland Road. All property owners had been offered some compensation by the city. Canning was asked to determine the appropriate compensation for the “taking.”

Widening of Springbank Drive

London is located in Southwestern Ontario, approximately 200 kilometres southwest of Toronto, and 200 kilometres northeast of Detroit, and it has a population of roughly 350,000. Springbank Drive ran east-west (see Exhibit 1) between Wharncliffe Road on the east, just east of the downtown core, and Byron in the southwest end of London. Springbank was one of the busiest routes in the city, carrying approximately 24,000 cars per day. At the east end, Springbank Drive flowed into Horton Street, which flowed in Hamilton Road. Together, Springbank, Horton, and Hamilton formed a continuous route across the city.

On August 16, 2002, the federal government, along with the City of London Ontario, announced plans under the Canada-Ontario Infrastructure Program to widen 2.55 kilometres of Springbank Drive from two lanes to four between Horton Street and Wonderland Road and to construct turning lanes at key intersections. The project also included the construction of sidewalks, the addition of curb lane allowances for cyclists, the installation of new pedestrian and traffic signals, and improvements to road drainage and street lighting. Construction was expected to be completed by 2004.

At issue was the compensation the residents could seek pursuant to the Expropriations Act for the expected front yard setbacks, increased traffic volumes and other problems caused by the widening of Springbank Drive as a result of the land expropriation already approved by the city to allow construction to proceed.

The Real Estate Appraisal Industry

A real estate appraiser is normally retained to provide an expert opinion on the value of a property. For residential units, this is often the 'fair market value' based upon the analysis and interpretation of sales data. Thus appraisers often become involved in cases where changes in value are anticipated or have occurred as a result of an action or actions by a third party.

A common approach to valuing residential properties is the sales comparison approach, which looks at the price of similar properties in the marketplace. The sales of these properties are analysed and the sale prices adjusted to account for differences in attributes with the subject property to determine its fair market value. The expert judgment of the appraiser is traditionally used to assign adjustments for attributes such as location, lot size, etc. that affect the fair market value. These adjustments could then be used to determine the losses in market value expected by the homeowners as a result of changes to their property to determine appropriate compensation.

Canning Consultants Inc.

As opposed to the traditional methods, Canning Consultants Inc. favored quantitative methods, referred to in the industry as Automatic Valuation Models (AVMs), which incorporated specific real estate and property attribute data to produce an estimate of market value. AVMs relied on statistical methods, such as multiple regression, to determine the relationship between the various attributes and market value.

Canning felt that the amount of subjective bias introduced by the individual appraiser was a problem in the application of the comparison method. According to Canning:

There's so much room for subjective judgments in this. You have the appraiser's choice of comparison. You will never find two properties that are an exact match. How do you justify that one property is a better comparator than another? Then there are the final subjective adjustments. An appraiser might say that she needs to increase her estimate by 10 per cent because of location, but I have never heard someone justify why it is 10 per cent as opposed to five per cent or 25 per cent.

The Data

The city had, in the past, used a formula based upon market value of the amount of land expropriated, plus a lump sum that included costs for all loss, disturbance costs and injurious affection. However, Canning did not feel that the city's formula properly accounted for all the factors and for the total loss of market value the residents would suffer, leaving the city vulnerable to compensation claims. For example, there was no consideration given to the fact that, as a result of the widening, traffic counts were expected to reach 33,000 per day by 2008.

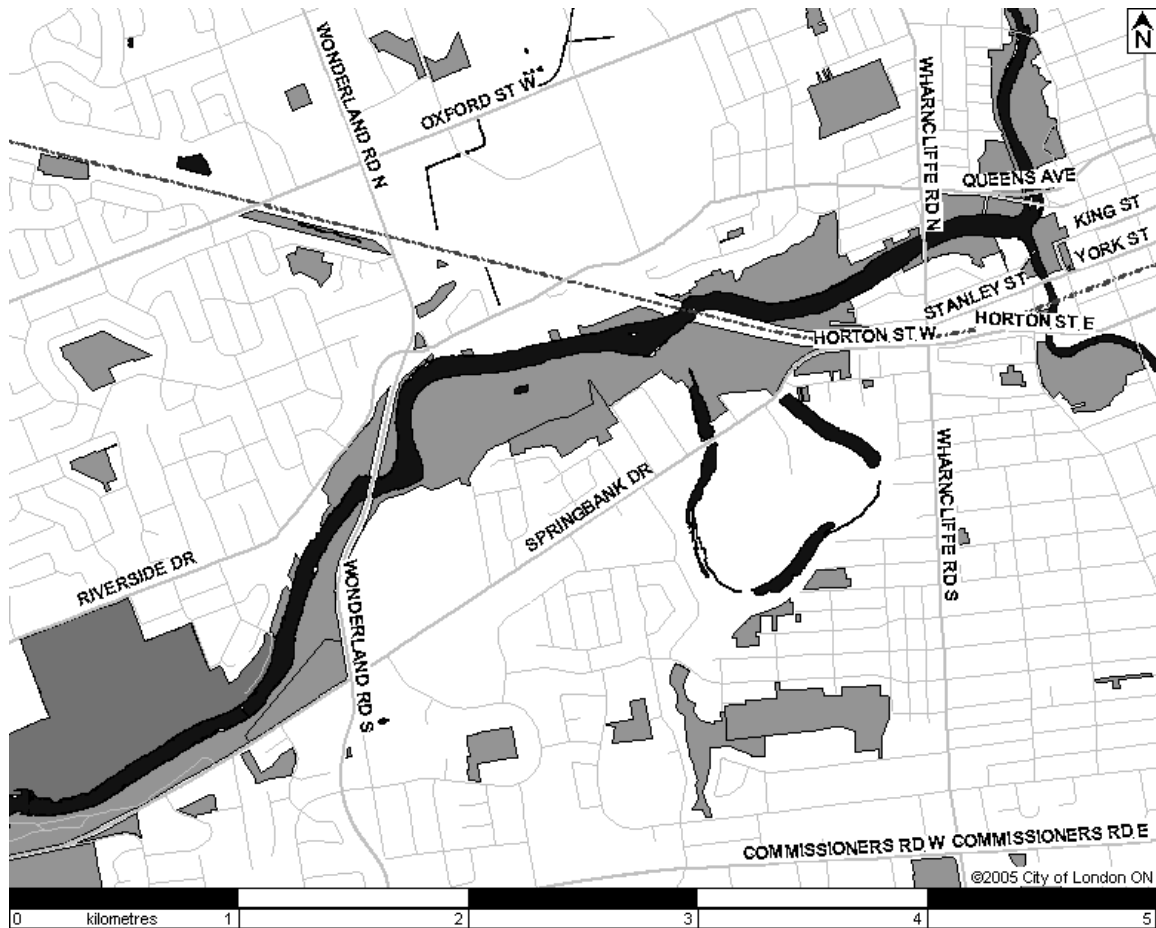
Canning had assembled a database that included sales of 104 residential properties on and around Springbank Drive from January 1998 to May 2003. The data (see Exhibit 2) included past sales of residential properties, along with 'conditional' attributes (e.g. lot size). A total of 18 attributes were included for each property, as well as the date of sale.

The Decision

Canning needed to estimate the loss of market value for each homeowner and provide justification for the approach in the event the City of London was challenged over the compensation claims in court.

Exhibit 1

MAP OF SPRINGBANK DRIVE AREA



Source: www.london.ca/_private/maps/maps.html.

