

## **SPRINGBANK DRIVE**

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*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.*

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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.

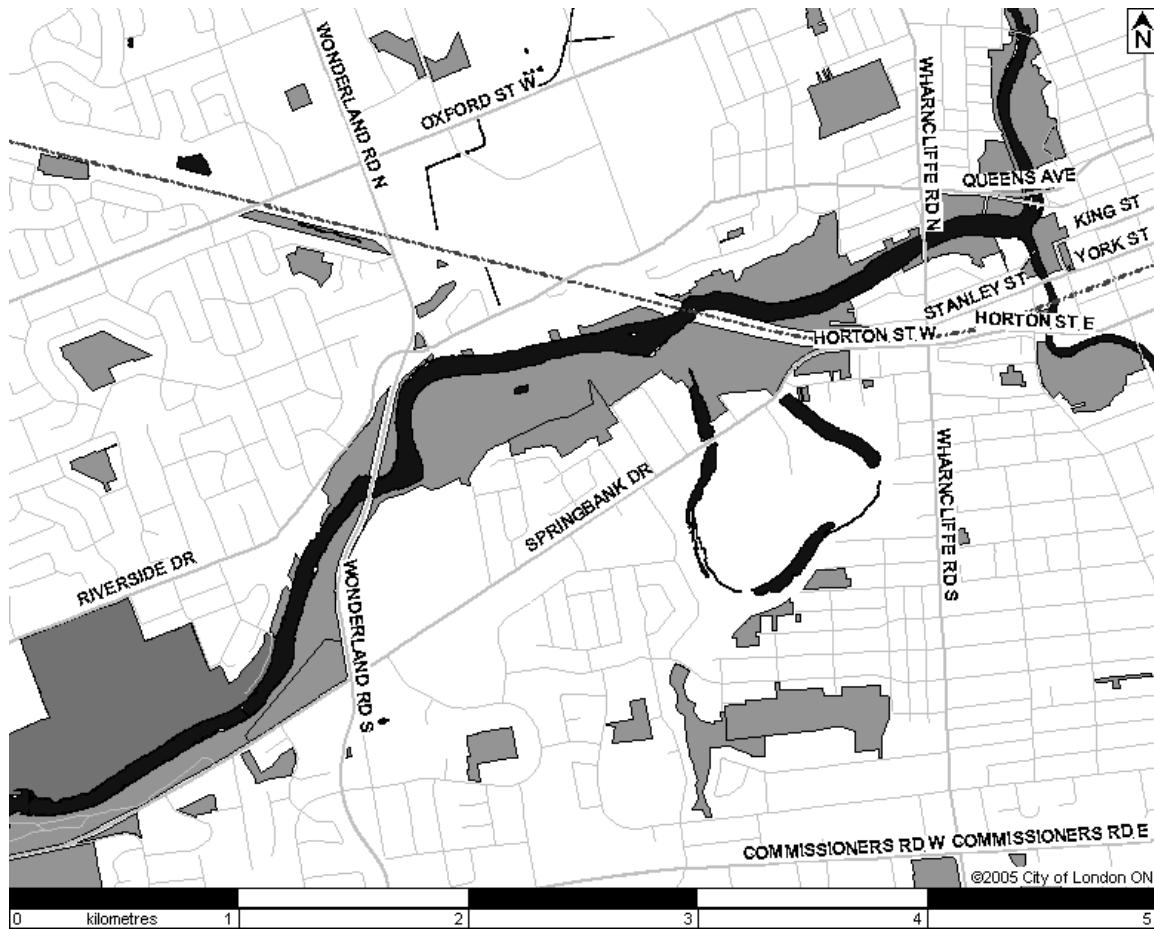
Canning had assembled a database that included sales of 104 residential properties on and around Springbank Drive from January 1998 to May 2003. The data (see Exhibit 2) included past sales of residential properties, along with ‘conditional’ attributes (e.g. lot size). A total of 18 attributes were included 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](http://www.london.ca/_private/maps/maps.html).

## Exhibit 2

## DATA ON RECENT SALES IN THE SPRINGBANK DRIVE AREA

Property #	Address	Sales Date	HSE/TYPE	AGE/YR	LOT/AREA	LOT/FRT	LOT/BLD	EXT/IN/TURB	EXAMEN	GAR	ST/SCAPE	CENAIR	POOL/INT/COND	BASSEM/T	BSMT/IN/AREA	BLMEN/APL	LANES/RD	TRAFCOUNT	PRICE
1	1449 Oxford St	2/19/1999	0	40	12300	61.5	674	52.32	1	3	1	0	3	1	0	5	1	559	6
2	1360 Oxford St	1/15/1998	0	45	7560	62.5	642	26.25	2	2	1	3	1	0	5	1	1	559	6
3	1390 Oxford St	9/28/1999	0	44	7560	62.6	642	26.25	2	2	1	3	1	0	5	1	1	30000	115000
4	1374 Oxford St	8/31/1999	0	48	8750	50	928	27.56	1	2	3	1	0	3	1	0	1	30000	110000
5	1176 Oxford St	4/30/2001	3	52	8750	50	928	39.99	2	3	1	3	1	0	3	1	0	32000	109000
6	987 Oxford St	1/21/2002	0	50	8475	50.75	735	20.67	2	1	3	1	0	3	1	0	1	202	0
7	644 Oxford St	2/14/2002	3	25	6920	34	1229	59.05	0	3	0	1	1	0	3	1	0	567	1
8	638 Oxford St	2/16/1999	3	30	3808	34	682	23.95	2	3	1	3	0	0	3	1	0	230	0
9	408 Oxford St	5/29/1998	2	60	4400	40	1289	39.04	2	3	1	1	0	0	1	2	0	33000	107000
10	1105 Oxford St	12/21/1998	3	100	11556	48.15	120	21.65	3	3	1	1	0	0	1	1	0	30000	105000
11	104 Oxford St	8/16/2001	0	60	44400	40	606	17.06	1	1	0	3	1	0	1	1	0	34000	103000
12	108 Oxford St	5/16/2000	0	60	4620	42	685	16.07	2	1	0	3	1	0	5	1	0	34000	112000
13	1210 Oxford St	9/22/2000	0	16	32000	56	1109	62.39	2	1	0	3	1	0	7	1	0	1026	0
14	1224 Oxford St	7/22/2002	0	23	15000	59	1763	81.56	1	3	0	3	1	0	3	1	0	522	3
15	1218 Oxford St	7/23/2001	0	24	1270	49	1615	75.44	2	3	0	3	0	1	0	5	1	18000	135000
16	1126 Oxford St	10/11/2000	0	46	19500	78	1084	69.55	0	3	2	1	0	0	5	1	0	18000	135000
17	946 Oxford St	9/27/1999	0	39	12000	81	865	41.33	2	3	0	0	0	0	3	1	0	23000	134000
18	922 Oxford St	1/24/2002	0	44	11250	75	7777	61.61	2	3	1	3	1	1	3	1	0	714	1
19	888 Oxford St	10/10/2000	0	40	11250	75	857	73.16	2	1	3	1	0	0	5	1	0	643	6
20	880 Oxford St	4/28/2001	0	42	11250	75	1380	73.16	2	3	1	3	1	0	5	1	0	23000	144000
21	814 Oxford St	7/9/2000	0	40	11248	75	852	46.91	3	1	3	1	0	1	7	1	0	490	3
22	808 Oxford St	5/25/2000	0	40	10398	80	745	50.35	2	3	1	3	0	0	7	1	0	521	3
23	790 Oxford St	11/24/1998	0	42	9750	75	1112	49.36	2	1	1	1	0	0	5	1	0	693	1
24	770 Oxford St	10/16/2000	0	42	10800	90	90	50.19	1	3	0	1	1	0	3	1	0	723	0
25	746 Oxford St	8/7/1998	0	48	10800	90	860	48.22	2	3	2	1	0	1	3	1	0	561	0
26	201 Wharncliffe Rd N	12/20/2001	3	65	44272	45.96	846	14.43	1	2	1	0	1	1	0	1	1	1	26000
27	199 Wharncliffe Rd N	12/20/2001	3	65	2780	30	719	13.77	1	2	1	0	0	0	1	1	0	1	0
28	163 Wharncliffe Rd N	8/31/2001	0	40	36500	35	563	27.55	0	1	1	0	1	1	0	1	1	560	5
29	955 Wharncliffe Rd S	6/15/1998	3	65	5980	49.5	948	0	0	0	1	3	1	0	0	1	0	24000	108000
30	379 Wharncliffe Rd S	5/22/2002	2	60	4702	39	1184	15.41	2	3	1	3	0	0	5	1	0	505	3
31	791 Wharncliffe Rd S	5/11/2000	0	37	24075	74.65	1140	112.2	0	1	1	5	0	0	3	1	1	1	21000
32	2123 Wharncliffe Rd S	7/15/1998	0	33	38500	100	1178	16.88	2	3	1	0	0	0	3	1	0	19000	68000
33	2133 Wharncliffe Rd S	7/25/2001	0	45	38500	100	1177	12.66	0	3	1	3	0	0	3	1	1	110	0
34	2133 Wharncliffe Rd S	5/25/2000	0	45	38300	100	1677	12.66	0	3	1	0	0	0	3	1	1	10	0
35	2237 Wharncliffe Rd S	2/27/2002	2	45	38300	100	1674	14.73	0	3	2	1	0	0	3	1	0	4	0
36	1018 Wharncliffe Dr	5/27/2000	3	65	43688	172	4012	1	3	1	2	3	0	0	5	1	0	425	3
37	831 Riverside Dr	4/19/2001	0	65	16174	104.35	15633	62.39	2	3	1	2	3	0	5	1	0	384	1
38	803 Riverside Dr	5/25/1999	0	45	11797	102.58	7233	22.33	2	1	1	3	0	1	5	1	0	450	4
39	774 Riverside Dr	10/27/1998	2	118	67970	65	1055	51.83	2	1	0	1	0	0	5	1	0	448	5
40	763 Riverside Dr	5/21/1998	0	40	11713	169.9	8397	63.97	2	3	1	1	0	0	3	1	0	737	0
41	747 Riverside Dr	5/29/1998	0	40	6970	118.46	1381	27.23	2	3	2	1	0	0	5	1	0	648	4
42	747 Riverside Dr	2/13/1999	0	41	6970	118.46	1381	27.23	2	3	2	1	0	0	5	1	0	648	4
43	649 Riverside Dr	3/22/1999	0	42	10875	85.95	587	2.07	1	2	3	2	1	0	5	1	0	708	2
44	472 Riverside Dr	11/13/1999	0	37	25022	61.44	773	64.63	2	2	1	3	0	1	3	1	0	732	4
45	484 Riverside Dr	5/31/2001	0	47	25000	61.61	821	62.58	2	3	1	2	3	0	5	1	0	682	4
46	435 Riverside Dr	11/11/2001	0	45	17745	80.47	55.11	80	2	3	1	1	0	0	3	1	0	450	4
47	361 Riverside Dr	5/14/1998	3	50	20359	76.54	12026	38.38	2	3	1	1	0	0	3	1	0	638	3
48	358 Riverside Dr	4/22/2000	0	40	36778	121.75	1076	57.09	2	3	1	1	0	0	3	1	0	568	3
49	354 Riverside Dr	5/13/2000	0	46	15539	85.33	6358	50.95	2	3	1	2	1	0	5	1	0	694	0
50	346 Riverside Dr	3/12/2000	3	46	15104	80.77	10265	38.71	2	1	0	3	1	0	5	1	0	578	0
51	338 Riverside Dr	5/31/1999	0	45	6240	67.17	847	45.74	2	1	3	0	0	1	1	1	0	436	0
52	275 Riverside Dr	6/6/2000	3	65	8047	53.75	1050	29.19	3	4	0	5	1	0	1	1	0	1850	180000
53	269 Riverside Dr	5/25/2001	3	70	8062	53.75	1186	32.36	0	3	1	1	0	0	5	1	0	450	0
54	259 Riverside Dr	1/15/2000	0	75	8017	53.45	947	52.49	2	4	0	3	1	0	5	1	0	19000	145000
55	251 Riverside Dr	8/4/1998	2	70	8026	53.75	1280	13.45	3	2	1	2	1	0	3	1	0	2	0
56	235 Riverside Dr	5/25/1999	0	60	8025	53.75	734	13.59	3	2	1	2	1	0	3	1	0	19000	1260000
57	130 Riverside Dr	11/18/1999	0	27	7620	55	6522	20.34	1	1	0	3	0	0	5	1	0	561	0
58	67 Riverside Dr	2/1/2002	0	44	3872	29.33	752	30.18	2	1	0	3	0	0	3	1	0	660	3
59	65 Riverside Dr	12/28/2001	0	48	5489	41.58	529	14.76	0	3	0	3	0	0	3	1	0	529	3
60	144 Springbank Dr	1/6/2001	0	52	4450	45	742	25.91	1	3	0	1	0	0	5	1	0	386	0
61	335 Springbank Dr	10/25/2001	0	55	68113	45.42	805	38.05	1	1	3	0	0	0	5	1	0	431	0
62	343 Springbank Dr	7/20/1999	2	55	8475	56.5	985	49.99	3	1	1	0	0	0	5	1	0	241	0
63	359 Springbank Dr	7/20/1999	0	55	85550	37	890	14.76	3	1	1	1	0	0	5	1	0	414	2
64	371 Springbank Dr	12/16/2000	0	55	83256	56.5	1304	32.15	3	1	1	0	0	0	5	1	0	463	0
65	406 Springbank Dr	7/24/1999	0	48	7600	50	762	61.17	3	1	1	0	0	0	5	1	0	312	0
66	732 Springbank Dr	6/12/2001	0	45	2402	45.3	853	32.19	2	1	1	0	0	0	5	1	0	654	1
67	377 Boier Rd	4/8/1999	0	55	6075	45	1071	33.96	3	1	1	0	0	0	5	1	0	170	0
68	358 Boier Rd	5/17/2001	0	48	9350	50	840	33.79	3	1	1	0	0	0	5	1	0	1100	137000
69	368 Boier Rd	3/8/1998	0	55	7638	60	733	44.29	2	1	1	0	0	0	5	1	0	487	3

**Exhibit 2 (continued)**

SALE#	ADDRESS#	Sales Date	HSE TYPE	AGE/YR	LOT/AREA	LOT/FRT	LFA DIST/CURB	EXT/AMEN	EXT/INFACTOR	GAR	STSCAPE	CENAIR	POOL	INTCOND	BASEMT	BSMT/TF/NAREA	BL AMEN APPL	LANESRD	TRAFCOUNT	PRICE	
72	377 Boiler Rd	4/8/2001	0	50	9350	50	1002	38.38	1	3	1	5	1	1	5	1	479	0	0	11000	
73	377 Boiler Rd	1/22/1998	0	48	9350	50	1002	39.38	1	3	1	5	1	1	5	1	479	0	0	11000	
74	385 Boiler Rd	7/14/2001	2	50	9350	50	925	44.61	2	2	1	3	1	0	7	1	0	0	0	11000	
75	401 Boiler Rd	6/16/1998	0	55	9350	50	723	42.65	3	1	1	5	1	0	5	1	178	1	0	11000	
76	456 Boiler Rd	9/15/2000	0	48	19800	75	1336	47.57	2	3	2	5	1	0	5	1	0	0	0	11000	
77	456 Boiler Rd	8/13/1998	0	47	19800	75	1336	47.57	2	3	2	5	1	0	5	1	0	0	0	11000	
78	501 Boiler Rd	9/24/2001	0	41	19653	77	900	50.85	3	1	2	5	1	0	7	1	697	3	0	11000	
79	501 Boiler Rd	2/8/1998	0	38	19653	77	900	50.85	3	1	2	5	1	0	7	1	697	3	0	11000	
80	503 Boiler Rd	2/25/2000	0	40	19181	75	901	40.68	2	3	1	3	1	0	5	1	901	2	0	11000	
81	524 Boiler Rd	8/30/1998	0	55	18275	55	38	862	39.37	2	5	0	3	1	0	5	1	100	0	0	11000
82	528 Boiler Rd	1/29/1999	0	30	23166	76	909	71.85	2	3	1	3	0	0	7	1	697	1	0	11000	
83	543 Boiler Rd	3/10/1998	0	0	5482	63.93	864	34.44	0	3	1	5	0	0	7	1	0	1	0	11000	
84	251 Riverside Dr	5/28/2003	2	75	6325	57.5	1202	11	0	1	2	3	1	0	3	1	0	0	0	18500	
85	253 Riverside Dr	11/29/2002	0	75	5000	50	808	16	0	2	3	0	0	3	1	382	0	0	0	18500	
86	334 Riverside Dr	8/12/2002	0	50	11880	132	939	18	2	2	0	3	0	0	5	1	807	0	0	18500	
87	352 Riverside Dr	6/15/2002	0	50	48787	617	645	12	0	1	0	3	0	0	3	1	645	0	0	18500	
88	360 Boiler Rd	11/29/2002	0	50	780	60	757	28	0	1	3	0	0	3	1	757	0	0	11000		
89	540 Boiler Rd	7/26/2002	0	26	20659	66	749	36	1	3	2	3	1	0	5	1	459	0	0	11000	
90	457 Boiler Rd	11/11/2002	0	33	16879	62	774	62	1	1	1	1	1	1	5	1	289	0	0	11000	
91	375 Boiler Rd	10/24/2002	0	45	9350	50	760	22	1	1	0	3	1	1	3	1	651	0	0	11000	
92	1315 Springbank Ave	11/18/2002	0	50	9050	60.5	723	28	1	5	1	1	0	3	1	1	645	0	0	18500	
93	1283 Springbank Ave	1/30/2003	2	70	8029	37	826	16	1	3	0	5	1	0	3	1	0	0	0	139900	
94	1278 Springbank Ave	3/17/2002	0	33	5635	41	714	15	2	0	1	3	1	0	3	1	489	0	0	119900	
95	570 Oxford E	12/13/2002	3	70	3300	30	1242	16	1	1	3	1	0	5	1	0	1	1	0	300000	
96	644 Oxford St E	4/26/2002	3	25	6902	34	1233	34	0	3	0	3	1	0	3	1	567	0	1	330000	
97	692 Oxford St E	3/31/2003	0	60	4560	38	644	19	2	1	3	0	0	3	1	280	1	1	320000		
98	1045 Oxford St E	7/15/2002	0	65	4987	38	427	16	0	2	0	1	0	0	3	1	0	1	0	320000	
99	1053 Oxford St E	1/17/2003	0	50	5200	39.9	919	14	0	1	1	1	0	0	3	1	480	0	1	320000	
100	1187 Oxford St E	4/10/2003	0	60	6103	52.5	628	14	0	2	1	1	0	0	3	1	562	0	1	320000	
101	190 Wharncliffe Rd	5/17/2003	3	80	4320	36	745	10	0	1	0	0	0	0	3	1	0	1	0	119900	
102	258 Wharncliffe Rd	3/31/2002	3	70	3150	36	745	9	0	3	1	1	0	0	3	1	0	1	0	330000	
103	344 Wharncliffe Rd	2/11/2003	0	50	3181	31.5	769	11	0	2	0	1	1	0	3	1	0	1	0	330000	
104	372 Wharncliffe Rd	7/19/2002	0	51	8300	50	763	49	0	1	1	5	1	0	5	1	763	0	0	330000	

**Variable Key**

Sales Date	Date of sale
HSE TYPE	House Type, i.e., One, One and a Half Storey, or Two Storey, 0=One Floor, 2=1.5 Storey, 3=2 Storey
AGE/YR	Age of house
LOT/AREA	Area of lot
LOT/FRT	Lot frontage
F/A	Area of frontage
DIST/CURB	Distance to curb
EXT/AMEN	Refers to Exterior Amenities such as a Deck, Shed, etc.
EXT/INFACTOR	Refers to Exterior Finishing, 1-Siding, 2=Brick And Siding, 3=Brick, 4=Stucco, 5=Wood
GAR	Garage Type, 0=None, 1=Carport, 2=One Car, 3=Two Car
STSCAPE	Streetscape, or the View Of the Street of the Comparable Property, 1=Fair 3=Average 5=Good
CENAIR	Central Air, 0-No, 1=Yes
POOL	Pool, 0-No, 1=Yes
INTCOND	Interior Condition, 1=Fair, 3=Average, 5=Good, 7=Excellent
BASEMNT	Basement, 0=No, 1=Yes
BSMT/TF/NAREA	Basement finished area
BL AMEN APPL	Refers to Interior Amenities such as Built-Ups or Appliances that went with the House Sale, 0=None, 1=1 Item, 2=2 Items, etc. up to 6=Six
TRAFCOUNT	Refers to Lane Side road. Is the Property on a Typical Residential Street or a Four Lane Road, 0=Means Typical Residential Location While 1=Four Lane.

Note: Price column in Canadian dollars. Figures in LOT/FRT and DIST/CURB in feet. Figures in LOT/AREA, LFA and BSMT/TF/NAREA in square feet.

Source: Company files.