

2016

ASSESSMENT METHODOLOGY

COMMERCIAL RETAIL AND OFFICE CONDOMINIUMS

A summary of the methods used by the City of Edmonton in determining the value of commercial retail and office condominium properties in Edmonton for assessment purposes.

edmonton.ca/assessment

Edmonton

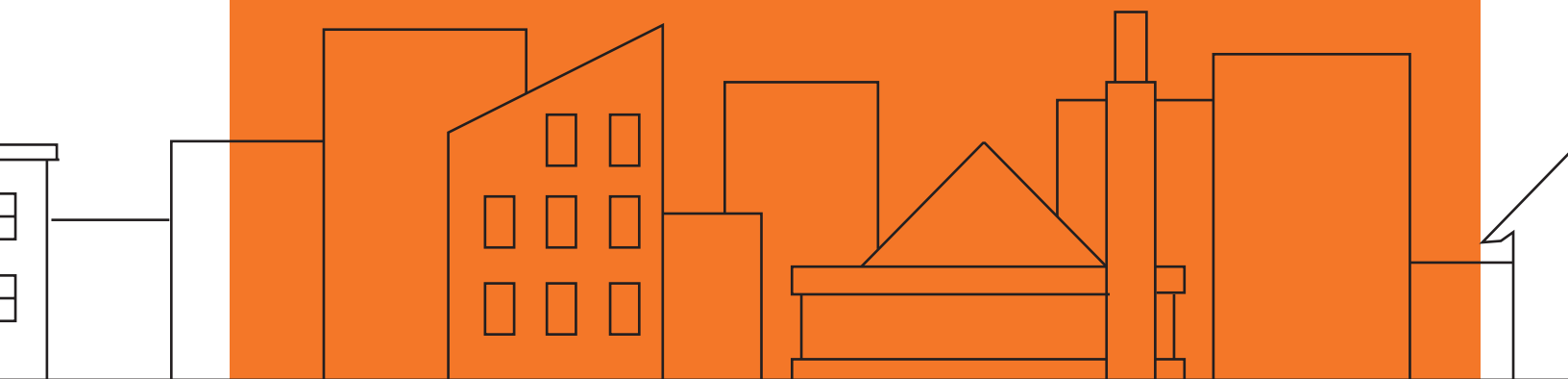



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Scope

This guide is an aid in explaining how Shopping Centres – Neighbourhood and Power Centres and Box retail properties are valued for assessment purposes. The guide is intended as a tool; it is not intended to replace the assessor's judgment in the valuation process.

This icon  signifies when legislation is quoted.

Introduction

Property assessments in the City of Edmonton are prepared in accordance with the requirements of the *Matters Relating to Assessment and Taxation Regulation*, Alta Reg 220/04, (hereinafter “MRAT”). This regulation establishes the valuation standard to be used, defines the procedures to be applied, and proposes objectives for the quality to be achieved in the preparation of assessments. The legislation requires the municipality to prepare assessments that represent *market value* by application of the *mass appraisal process*. All assessments are expected to meet quality standards prescribed by the province in the regulation.

Both *market value* and *property* are defined in the *Municipal Government Act*, RSA 2000, c M-26 (hereinafter the “MGA”):

s. 1(1)(n) “market value” means the amount that a property, as defined in section 284(1)(r), might be expected to realize if it is sold on the open market by a willing seller to a willing buyer;

In summary, commercial property assessments represent:

- an estimate of the value;
- of the fee simple estate in the property;
- as it existed on December 31, 2015;
- would have realized if it had been sold on July 1, 2015;
- on the open market and under typical market conditions;
- by a willing seller to a willing buyer.

The assessment is a prediction of the value that would result when those specific, defined conditions are met.

“Fee simple interest [is] absolute ownership unencumbered by any other interest or estate...leased fee interest [is] the ownership interest held by the lessor, which includes the right to the contract rent specified in the lease plus the reversionary right when the lease expires....leasehold interest [is] the interest held by the lessee (the tenant or renter) through a lease conveying the rights of use and occupancy for a stated term under certain conditions.”

Appraisal Institute of Canada, *The Appraisal of Real Estate Third Canadian Edition*, Vancouver, Canada, 2010, page 6.4.



Mass Appraisal

Mass appraisal is the legislated methodology used by the City of Edmonton for valuing individual properties, and involves the following process:

- properties are stratified into groups of comparable property
- common property characteristics are identified for the properties in each group
- a uniform valuation model is created for each property group



27.1(c) **“valuation model”** means the representation of the relationship between property characteristics and their value in the real estate marketplace using a mass appraisal process

MRAT s.27.1(c)

The following two quotations indicate how the International Association of Assessing Officers distinguishes between mass appraisal and single-property appraisal:

... “single-property appraisal is the valuation of a particular property as of a given date: mass appraisal is the valuation of many properties as of a given date, using standard procedures and statistical testing.”

... “Also, mass appraisal requires standardized procedures across many properties. Thus, valuation models developed for mass appraisal purposes must represent supply and demand patterns for groups of properties rather than a single property.”

The International Association of Assessing Officers, Property Appraisal and Assessment Administration, Chicago, Illinois, 1990, pg.88-89.

For both mass appraisal and single-property appraisal, the process consists of the following stages:

	Mass Appraisal	Single Appraisal
Definition and Purpose	Mass appraisal is used to determine the assessment base for property taxation in accordance with legislative requirements	The client specifies the nature of the value to be estimated, including rights to be valued, effective date of valuation, and any limiting conditions
Data Collection	Mass appraisal requires a continuing program to maintain a current database of property characteristics and market information.	The extent of data collection is specific to each assignment and depends on the nature of the client's requirements
Market Analysis	Mass appraisal is predicated on highest and best use	Market analysis includes the analysis of highest and best use
Valuation Model	Valuation procedures are predicated on groups of comparable properties	Subject property is the focus of the valuation. The analysis of comparable properties is generally six or less
Validation	The testing of acceptable analysis and objective criteria	The reliability of the value estimate is more subjective. Acceptability can be judged by the depth of research and analysis of comparable sales

Valuation Model

A valuation model creates an equation of variables, factors and coefficients that explains the relationship between estimated market value and property characteristics. An assessed value is then calculated by applying the appropriate valuation model to individual properties within a property type.



s.27.1(a) **“coefficient”** means a number that represents the quantified relationship of each variable to the assessed value of a property when derived through a mass appraisal process

(b) **“factor”** means a property characteristic that contributes to a value of a property;

(d) **“variable”** means a quantitative or qualitative representation of a property characteristic used in a valuation model

s.27.3(1) ...information that is required to be provided...does not include coefficients

Province of Alberta. (2012). Matters Relating to Assessment and Taxation Regulation.

Valuation Model

- variables are created from property characteristics
- analysis of how variables effect market value
- factors and coefficients are determined
- the resulting valuation models are applied to property characteristics

Commercial Property Types

Retail and Office Condominiums are single units that are typically part of a larger building or building complex. These units are registered as separate titles and therefore can be bought and sold separately. These properties may be of mixed use consisting of retail, commercial, and residential units.

There are other commercial properties types in the marketplace, however only the pertinent ones have been summarized below:

Office buildings are developments designed for general commercial occupancy, including administrative, government and corporate uses, and are normally subdivided into relatively small units. Some of these typical uses include: the offices of lawyers, accountants, engineers, architects; offices for real estate and insurance firms; clerical, secretarial, employment, telephone answering and similar office support services, health services, government services and financial uses.

Retail properties are commonly free standing buildings. Multiple free standing buildings can be found on the same property. This category also includes street-front retail units that may be abutting other retail properties, which are typically pedestrian-oriented. In conjunction with retail, various uses on other floors can be found, such as residential and/or office space. Street parking is predominant in these retail properties. Does not include properties that fall under the Retail Plaza category.

Retail Plazas refer to three types of retail properties:

Unanchored Strip Centres* are multi-unit (3 or more) retail buildings often laid out in a continuous strip of stores. These buildings are generally constructed as a straight line (strip) or a 'U' or 'L' shape configuration. They are typically vehicle-oriented rather than pedestrian-oriented. Typically, off-street parking is available with direct access to the front of retail stores. Each retail unit generally has a separate customer entrance; however, some may be accessed through common areas, such as enclosed walkways or corridors. Moreover, a free standing building may be on the site such as a bank or restaurant.

Stacked Retail Developments are unanchored multi-unit (3 or more), multi-floor retail buildings often laid out in a box configuration, and typically have a common area to access one or more units. Multiple Stacked Retail Developments can be found on the same property. Main floor units typically have direct access to the exterior, while upper floor units are usually accessed through a common area. Stacked Retail Developments are typically street-front and found in areas of heavy retail agglomeration.

Unanchored Enclosed Malls are similar to Stacked Retail Developments, but are only one story. Units are typically accessed through a common area walkway.

Approaches to Value

The most common approaches to determine market value are the direct comparison, income, and cost. Each emphasizes a particular kind of market evidence.

Direct Comparison Approach

Typical market value (or some other characteristic) is determined by referencing comparable sales and other market data and making appropriate adjustments. It is often used when sufficient sales or market data is available. It may also be referred to as the Sales Comparison Approach

Income Approach

This approach considers the typical actions of renters, buyers and sellers when purchasing income-producing properties. This approach estimates the typical market value of a property by determining the present value of the projected income stream. Often used to value rental or leased property

Cost Approach

Typical market value is calculated by adding the depreciated replacement cost of the improvements to the estimated value of land. It is often used for properties under construction or when there is limited market data available

Direct Comparison Approach

For this property group, the assessment is determined using the Direct Comparison approach. It is the most appropriate method of valuation for Retail and Office Condominium properties in the City of Edmonton as it mirrors the actions of buyers and sellers in the market place. There is sufficient sale data to derive reliable market estimates.


The income and cost approaches were not used in the valuation of this property group, as these approaches are more applicable to income producing properties or in limited markets, respectively. The majority of these properties in this inventory are owner occupied with only a portion of the inventory traded based on the property's ability to generate income.

The City of Edmonton validates all land title transactions (sales). The validation process can include site inspections, interviews with parties involved, a review of land title documents, corporate searches, third party information, and sale validation questionnaires.

The City of Edmonton reviews sales occurring from July 1, 2009 to June 30, 2015 for valuation of Condominiums property. Time adjustments are applied to sale prices to account for any market fluctuations occurring between the sale date and the legislated valuation date.

Sale price reflects the condition of a property on the sale date and may not be equal to the assessment.

Sample Assessment Detail Report



Assessment Detail Report
ANNUAL REALTY ASSESSMENT DETAILS 2016

Tax Roll Account
Property Address

Taxation year 2016 **Date of mailing** 04-JAN-2016 **Date of request** 06-JAN-2016 11:13
Property Assessment **\$1,559,500**

Property Details

Legal
Neighborhood 1090 - DOWNTOWN
Effective Zoning RA9 - High Rise Apartment District
Actual Zoning HA - Heritage Area District
Lot Size 446.717 Ft2 .010 Ac **Site Coverage Percent** %

Tax Class / Land Use / Taxable Status
COMMERCIAL
100 % 227 - CONDOMINIUM OFFICE UNIT
01-JAN-2016 To 31-DEC-2016 100 % FULLY TAXABLE

Property
Characteristics

Unit Of Measure IMPERIAL

Building Details							
No.	Market Building Class	%Comp	Condition	Yr Built	Eff Yr Built	Gross Area	Net Area
1	COMMERCIAL CONDO OFFICE	100	AVERAGE	2009	2009	4,195.019	4,195.019

Direct Sales Approach Summary

ACCOUNT	Location Downtown	Variables	1	Factors
ACCOUNT	Traffic		MINOR	
BUILDING - 1 COMCNDOF	Unit Finish		ORIGINAL	
BUILDING - 1 COMCNDOF	Total Upper Floor Office Area		4,195.0188	
BUILDING - 1 COMCNDOF	Build Year		2009	
BUILDING - 1 COMCNDOF	Neighborhood		1090	
BUILDING - 1 COMCNDOF	Market Building Class		COMCNDOF	
BUILDING	TOTAL BUILDING VALUE		1559500	

Property Assessment **1,559,500**

Coefficients are not provided, MRAT s.27.3(1)

If you have any questions concerning this information, please return to the website (<https://assessmentinfo.edmonton.ca>) and click on FAQ (Frequently Asked Questions) located at the top right hand corner of the webpage.

Variables

Below is the list of variables that affect the assessment value for 2016.

Common Area/Bare Land Areas	Condition
Effective Year Built	Floor Level
Parking	Regional Location
Size	Space Type
Traffic Influence	

Common Area/Bare Land Areas are units in the inventory that serve as common/servant areas for other units. These units are separately titled and, therefore, are separately assessed. Typically, these units belong to the condominium association. For example, the foyer or hallways may be separately titled.

Condition is the overall property condition and has been rated using the following categories, generally described as:

Poor

- borderline derelict;
- far below average maintenance;
- many items need immediate repair.

Fair

- below average maintenance;
- discernible deterioration of building components more rapidly than expected for building era;
- deferred maintenance requiring rehabilitation, replacement, or major repairs;
- Reduced utility with signs of structural decay.

Average

- normal deterioration for property era;
- moderate maintenance;
- minor repairs or rehabilitation of some components required;
- within established norm for the era;
- Somewhat less attractive.

Good

- above average maintenance;
- well maintained with high desirability;
- may have slight evidence of deterioration in minor components;
- often components are new or as good as new;
- attractive, high utility, and superior condition.

Effective Year Built (also known as Effective Age) is the chronological age with an adjustment to reflect an addition or significant renovation that extends the improvements remaining economic life.

Floor is a level in a building. Buildings can have more than one floor. A commercial condominium building might have a basement, main, and upper floors from two to six.

Mezzanine is an intermediate floor between main floors of a building and is usually smaller than the main floor. A mezzanine has a low ceiling and projects in the form of a balcony. Generally a mezzanine level cannot be leased or sold separately from the unit.

Parking is assessed based on separately titled parking stalls. Surface parking is assessed based on the land rate including cost of paving in different regional locations. Underground parking is assessed based on the cost of construction of an underground structure utilized for parking.

Regional Location: commercial condominiums are stratified based on geographic areas referred to as study areas, market areas, regions and/or districts. These typically encompass a group of neighbourhoods, defined on the basis that the properties within its boundaries are more or less equally subject to a set of one or more economic forces. These economic forces include similar attributes that are shared by a location such as traffic influence, age of construction, and/or proximity to a particular population demographic. See map in the appendix.

Size is based on the floor area indicated on a registered condominium plan. In addition to registered size an owner might construct a mezzanine level, also included into assessment as a space providing amenity/utility. A condominium unit may have more than one floor. The base floor recognized by the model is the main floor. Floors above main or below main might have a discounted assessment.

Space Type

- **Office Space:** Space that is utilized, designed or intended for typical office use. Office space is typically located on the second floor or higher.
- **CRU Space:** Commercial Retail Unit (CRU) spaces are general retail spaces.

Size:	Size Category:
CRU < 1,000 ft ²	CRU LESS
CRU 1,001 to 3,000 ft ²	CRU MED
CRU 3,001 to 5,000 ft ²	CRU MAX
CRU 5,001 to 10,000 ft ²	CRU MEG
CRU 10,001+ ft ²	CRU EXT

- **CRU-Restaurants:** CRU space that has a higher level of finish than typical CRU space, and typically has improved electrical and design.
- **CRU-Warehouse:** Unfinished space that contains one or more bay doors, and is typically utilized for storage, light manufacturing or product distribution.
- **Storage:** Unfinished space used that is of less utility than warehouse space.

- **Common area:** Typically a registered condominium unit that does not transfer title. The area of such unit serves all registered owners as a utility area. Typically, this unit belongs to the condominium association. The area of this unit is assessed at a nominal value.

Parking: Parking is valued based on parking type: surface or underground.

- **Surface:** Parking located on ground level that is not covered and has no protection from the outside elements.
- **Underground:** Parking located in a parking structure that is fully enclosed and protected from the outside elements.

Traffic Influence is based on average annual weekday traffic volume counts as reported by City of Edmonton Transportation Planning Branch.

- **None:** < 5,000 vehicles
- **Minor:** 5,001 – 10,000
- **Moderate:** 10,001 – 20,000
- **Major:** 20,001 - 30,000
- **Extreme:** 30,001 - 50,000
- **Mega:** > 50,000

Adjustments

Adjustments maybe made for the following.

Unfinished Space in a condominium unit that is without dividing walls, minimal mechanical fixtures, floor coverings, ceiling or any other finishing, typically seen in new condominium units in new buildings listed for sale on the market. The value is based on Marshall & Swift finishing cost rates.

Definitions

Actual Zoning is set by the *Edmonton Zoning Bylaw 12800* and regulates the use and development of a parcel. For 2015 actual zoning did not affect value.

Effective Zoning is applied to reflect the current use and development of a parcel. The effective zoning may differ from the actual zoning when current use differs from that which is permitted by the actual zoning as updated by *Edmonton Zoning Bylaw 12800* (i.e grandfathered use). For 2015 effective zoning did not affect value.

Land Use Codes

List of LUCs used for commercial condominiums:

LUC	LUC NAME
153	CONDOMINIUM WALK-UP UNIT
157	CONDOMINIUM ACCESSORY UNIT
159	CONDOMINIUM COMMON AREA UNIT
200	ONE STORY RETAIL/WHOLESALE
209	RETAIL/WHLSE CONDOMINIUM UNIT
210	RESTAURANT
213	DRINKING ESTABLISHMENT
220	ONE STORY OFFICE
223	THREE STOREY OFFICE
227	CONDOMINIUM OFFICE UNIT
229	COMM BUSINESS/SERVICE - OTHER
243	CONDOMINIUM SHOPPING CENTRE UNIT
264	SELF-SERVICE GAS/SERVICE/CAR WASH
280	BARE LAND CONDO UNIT NON-RES
281	CONDO PARKING STALLS NON-RES
429	MEDICAL AND HEALTH SERVICE - OTHER
532	PARKING STRUCTURE - HEATED
537	PARKING LOT - UNPAVED NO NETS
907	BARE LAND CONDO NON-RESIDENTIAL

Market Building Class (MBC) Indicates the class or type of the primary building structure on the property. For 2015 the MBC did not affect value.

Quality of a property refers to the methods and materials used in the construction and design of a property (workmanship, complexity of the structure, use of high end or low end materials). Consideration must be given to the fit and finish of the building in relation to its functional requirements.

Site coverage is the relationship, expressed as a ratio, between the main floor area of the improvement(s) and the amount of land associated with it.

Provincial Quality Standards

For Condominiums properties the City of Edmonton used the direct comparison approach to calculate the 2016 assessments. The assessment models, the process utilized, and the results are submitted annually to the Assessment Services Branch of the Department of Municipal Affairs for audit purposes. This audit is used to determine the accuracy of our predictions relative to the market place, and is a direct reflection on the accuracy of our models. The results indicated that our assessments meet Provincial Quality Standards as set out in *MRAT*.

Map: Condo Regions by Neighbourhood

