

2016

ASSESSMENT METHODOLOGY

COMMERCIAL SHOPPING CENTRES

A summary of the methods used by the City of Edmonton in determining the value of commercial shopping centres, neighbourhood and power centres and box retail properties in Edmonton.

edmonton.ca/assessment

Edmonton

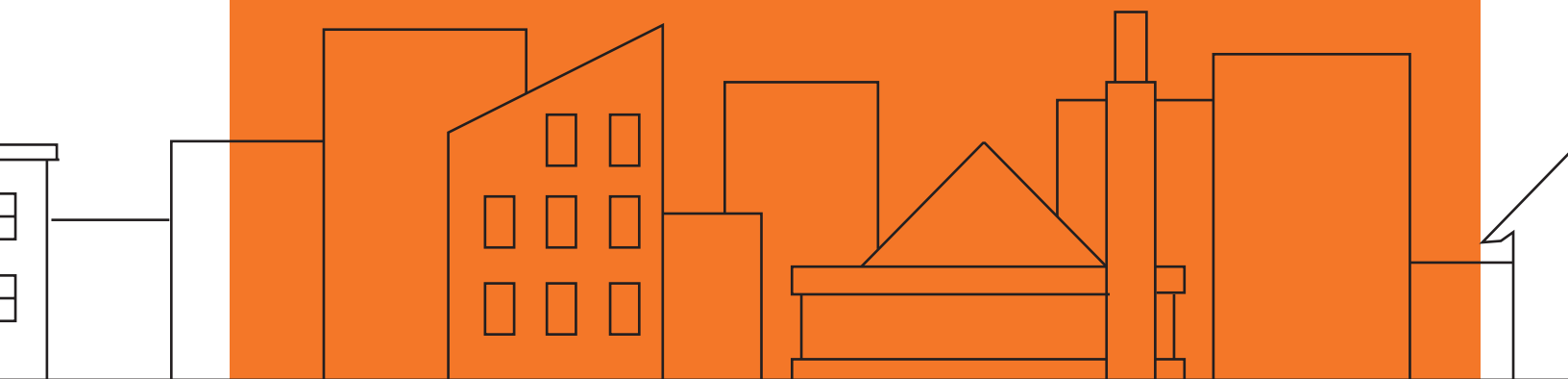



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Scope

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.

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
- from 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.

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



s.284(1)(r) “**property**” means

- (i) a parcel of land
- (ii) an improvement, or
- (iii) a parcel of land and the improvements to it

*MGA Province of Alberta. (2015). Municipal Government Act. Edmonton, AB: Queen's Printer
s.284(1)(r)*

s.1(n) “**regulated property**” means

- (i) land in respect of which the valuation standard is agricultural use value,
- (ii) a railway,
- (iii) linear property, or
- (iv) machinery and equipment

MRAT s.1(1)(n)

s.6(1) the **valuation standard** for the land and improvements is market value unless subsection (2)... applies

MRAT s.6(1)

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

MGA s.1(1)(n)

s.2 An assessment of property based on **market value**

- (a) must be prepared using mass appraisal,
- (b) must be an estimate of the value of the fee simple estate in the property, and
- (c) must reflect typical market conditions for properties similar to that property

MRAT s.2

s.289(2) Each assessment must reflect

- (a) the characteristics and physical condition of the property on **December 31** of the year prior to the year in which a tax is imposed

MGA s.289(2)(a)

s.3 Any assessment prepared in accordance with the Act must be an estimate of the value of a property on **July 1** of the assessment year

MRAT s.3

s.1(k) “**mass appraisal**” means the process of preparing assessments for a group of properties using standard methods and common data and allowing for statistical testing

MRAT s.1(k)

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

Shopping centres are groups of commercial establishments related in location, size, and type. Shopping centre properties are grouped into two formats: open and enclosed retail properties. Open format shopping centres are described below:

Power centres are typically large shopping centres, with one or more anchor tenant(s) such as box retailers. Typically, tenants have exterior exposure and access. They are commonly situated along major arterial roads. Power centres typically occur over large commercial areas that include more than one legal address and it is *not* a requirement that the anchors be on *each* parcel.

Neighbourhood shopping centres typically provide for the sale of convenience goods (foods, drugs and sundries) and personal services (laundry and dry cleaning, barbering, shoe repairing, etc.) for the day-to-day living needs of the immediate neighbourhood. A grocery store is typically the anchor tenant in a neighbourhood shopping centre. Neighbourhood shopping centres typically occur over large commercial areas that include more than one legal address and it is *not* a requirement that the anchors be on *each* parcel.

Box retail is typically a single site or stand-alone property that is not directly abutted by other retailers. They are commonly anchor and junior anchor sized retailers.

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

Office buildings are designed for general commercial occupancy, including administrative, government and corporate uses, and are normally demised into relatively small units. Some of these typical uses include the offices of lawyers, accountants, engineers, architects, real estate and insurance firms, health and government services and similar office support services.

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 are stratified into three types:

Unanchored Strip Centres* are multi-unit (3 or more) retail buildings often laid out in a continuous strip. 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. One or more freestanding buildings 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.

Additional details are available in the Office and Retail Assessment methodology guides, which are provided online at Edmonton.ca.

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 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.

Income Approach

For this property type the assessment is determined using the income approach. The income approach is chosen as it best reflects the typical actions of buyers and sellers when purchasing income-producing properties. This is due to the ample amount of financial information provided by owners during the annual Request for Information (RFI) process.

For the Income model, this process analyzes the relationship between the attributes of these rental properties with their rental income. The unit of comparison variable used in the model is **triple net rent**. The resulting model is then applied as a formula to the physical characteristics and attributes of every commercial property to calculate each property's market value assessment.

Sales information is received from Land Titles. Sales are verified and validated by conducting site inspections and interviews, and by reviewing title transfers (change of ownership), sales validation questionnaires, and secondary data collection sources. The resulting verified and validated sales are used to develop capitalization rates to determine market value in the income approach. ***Sales reflect the condition of a property as of the sale date and thus may not always be equivalent to their assessed value.***

Sales occurring from June 1, 2011 to June 30, 2015 for valuation of Shopping Centres - Neighbourhood, Power and Box Retail properties were used. Time adjustments are applied to sale prices to account for any market fluctuations occurring between the sale date and the legislated valuation date.

Income Approach Definitions

To provide a clear understanding of the terms used in the income approach, the following definitions are supplied.

Typical Market Rent is the rent currently prevailing in the market for properties comparable to the subject property (otherwise known as current economic rent). Current economic or market rents are used to form the basis of the valuation as opposed to actual rents, because in many cases actual rents reflect historical revenues derived from leases negotiated before the valuation date. In determining potential gross income, the assessor is not bound by the contractual rent between the landlord and tenant, but must determine rental income on the basis of what is typically paid in the market at the time of valuation.

Base Rent / Net Rent is the stipulated or contract rent exclusive of additional charges to the property (taxes, insurance, utilities and maintenance). Base and net rent do not include GST.

Triple Net Rent is the rental structure where the tenant (lessee) pays all charges to the property (e.g.: taxes, insurance, utilities, maintenance) in addition to the stipulated or contract rent. Structural repairs are excluded from the tenant responsibility.

Effective Net Rent is the rental term identifying the rental amount (usually in dollars per square foot of leased area) after adjustments have been made accounting for free rent periods, plus the present value of tenant improvement allowances and other inducements such as free parking.

Lease types include the terms gross lease, modified gross lease, single net lease, double net lease, and triple net lease. These may not always mean the same thing in different markets. The expenses that are included in each type of rent vary from market to market. In general, the following distinctions can be made:

- *Gross lease* - tenant pays rent and property owner pays expenses
- *Modified gross lease (sometimes semi-gross)* - tenant and property owner share expenses
- *Single net lease* - tenant pays utilities and taxes or insurance, and property owner pays structural repairs, property maintenance, and property taxes or insurance
- *Double net lease* - tenant pays utilities, taxes, and insurance, and property owner pays structural repairs and property maintenance
- *Triple net lease* - tenant pays utilities, taxes, insurance, and maintenance, and property owner pays for structural repairs only

Operating Expenses (OE) are the periodic expenditures necessary to maintain the real property and continue the production of the effective gross income; these are accounted for by the vacancy shortfall and structural allowances in the pro forma.

Common Area Maintenance (CAM) are the charges that reflect the costs of operating the interior and exterior common areas of a commercial property, and therefore include expenses for cleaning, utilities, heating, insurance, garbage & snow removal, and management fees.

Potential Gross Income (PGI) is the total current market rent for all space types that would be collected if the property were fully occupied at the date of valuation. In estimating PGI, the assessor distinguishes between market rent and contract rent. Market rent is the rate prevailing in the market for comparable properties and is used in calculating market value by the income approach. Contract rent is the actual amount agreed to by landlord and tenant.

Potential gross income is derived by multiplying all Gross Leasable Areas (GLA) in the building by the current market rent for each particular space type.



Vacancy Allowance is a deduction from the potential gross income for typical vacancy and collection losses, assuming current market conditions and typical management. Vacancy losses are best described as an allowance for vacant space. Collection losses are considered unpaid rents that the landlord is unlikely to recover. These allowances are usually expressed as a percentage of potential gross income. Variations in vacancy allowance can occur if vacancy greater than 10% is experienced for at least 3 consecutive years immediately preceding the valuation date. An allowance reflecting the stabilized chronic vacancy rate may be applied on a per building basis.

Effective Gross Income (EGI) is the anticipated income from all operations of real property adjusted for vacancy and collection loss.

$$\text{PGI} - \text{Vacancy Allowance} = \text{EGI}$$

Vacancy Shortfall is an expense related to the cost of carrying vacant space. Though the space is vacant there are still costs associated with the space that the owner must pay, e.g. some operating expenses, heating, security, property taxes, etc.

$$\text{GLA} \times \text{Vacancy Allowance} \times \text{CAM} = \text{Vacancy Shortfall}$$

Net Operating Income (NOI) is the actual or anticipated (before income tax) net income from the operation of the property after deducting all expenses from the effective gross income but before debt servicing costs. The term is often abbreviated to net income and sometimes stated as net income before recapture.

$$\text{EGI} - \text{OE} = \text{NOI}$$

Structural Allowance is an allowance provided to cover items which require periodic replacement because they wear out more rapidly than the building itself. Typically under the terms of conventional triple net leases, all operating expenses and property taxes are fully recouped by the landlord from the tenant. The only exception relates to items of a structural and/or capital nature, which are normally excluded from such recoveries. ***Rather than lump sum deductions, a structural allowance is applied annually over the economic life of the property regardless of whether any expenses were incurred in any given year.***

Overall Capitalization Rate (Cap Rate) is the rate reflecting the relationship between the anticipated net operating income from a single year (or an average of several years) and the total price or value of the property. The cap rate converts net operating income into an indication of property value. The cap rate, in its basic formula, is found by dividing net operating income by the sale price.

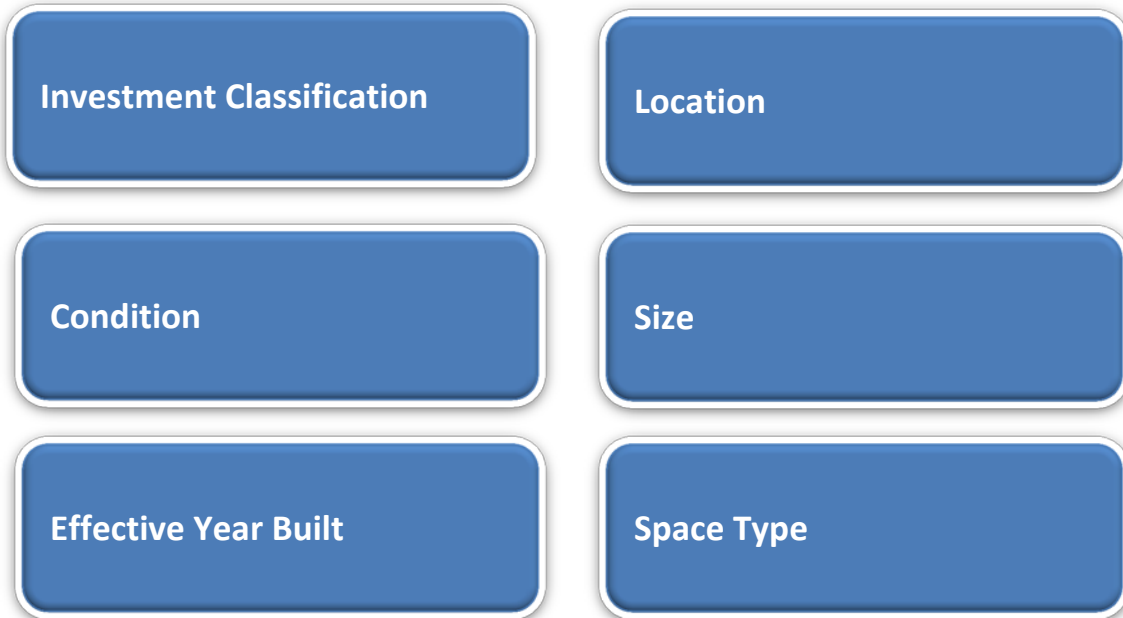
$$\text{NOI} \div \text{CAP RATE} = \text{MARKET VALUE ESTIMATE}$$

Sample Pro forma

Identifies Classification for subject property. See classification section for more details	<div>Shopping Centre Valuation Summary</div> <div>2016 Assessment</div>				<div>PROFORMA FOR "MALLS" TYPE (SUPER-REGIONAL, REGIONAL, COMMUNITY) EACH MALL IS ITS OWN MARKET AREA.</div>																																																																																																
	<div>Name: Sample Building</div> <div>Roll Number: 123456</div> <div>Address: Sample</div> <div>Study Area: CENTRAL1</div>		<div>Value Date: July 1, 2015</div> <div>Property Type: Nbrd Shop A</div> <div>Class:</div> <div>Eff. Year Built: 2008</div>		<div>VALUATION DATE</div>																																																																																																
	<table> <tr> <th>Tenant Space</th><th>Area ft²</th><th>Market Rent</th><th>Totals</th></tr> <tr> <td>Anchor Tenant 1 Age:</td><td>1,000</td><td>\$10.00</td><td>\$10,000</td></tr> <tr> <td>Anchor Tenant 2 Age:</td><td>0</td><td>\$0.00</td><td>\$0</td></tr> <tr> <td>CRU Food Store Age:</td><td>0</td><td>\$0.00</td><td>\$0</td></tr> <tr> <td>CRU Drug Store</td><td>0</td><td>\$0.00</td><td>\$0</td></tr> <tr> <td>CRU Junior Anchor 10,000 to 20,000 ft²</td><td>0</td><td>\$0.00</td><td>\$0</td></tr> <tr> <td>CRU Junior Anchor > 20,001 ft²</td><td>0</td><td>\$0.00</td><td>\$0</td></tr> <tr> <td>CRUs <1,000 ft²</td><td>0</td><td>\$0.00</td><td>\$0</td></tr> <tr> <td>CRUs 1,001 to 3,000 ft²</td><td>3,000</td><td>\$30.00</td><td>\$90,000</td></tr> <tr> <td>CRUs 3,001 to 5,000 ft²</td><td>0</td><td>\$0.00</td><td>\$0</td></tr> <tr> <td>CRUs 5,001 to 10,000 ft²</td><td>0</td><td>\$0.00</td><td>\$0</td></tr> <tr> <td>CRU - Restaurants</td><td>0</td><td>\$0.00</td><td>\$0</td></tr> <tr> <td>CRU - Restaurants Good/Fast Food</td><td>0</td><td>\$0.00</td><td>\$0</td></tr> <tr> <td>CRU - Theatre</td><td>0</td><td>\$0.00</td><td>\$0</td></tr> <tr> <td>CRU - Other: 0</td><td>0</td><td>\$0.00</td><td>\$0</td></tr> <tr> <td>CRU - Auto Service</td><td>0</td><td>\$0.00</td><td>\$0</td></tr> <tr> <td>CRU - Bank</td><td>0</td><td>\$0.00</td><td>\$0</td></tr> <tr> <td>CRU - Library</td><td>0</td><td>\$0.00</td><td>\$0</td></tr> <tr> <td>Office Space</td><td>1,000</td><td>\$12.00</td><td>\$12,000</td></tr> <tr> <td>Storage</td><td>1,000</td><td>\$1.00</td><td>\$1,000</td></tr> <tr> <td>Land Lease</td><td>0</td><td>\$60,000.00</td><td>\$60,000</td></tr> <tr> <td>Parking Stall Count: 0</td><td>0</td><td>\$0.00</td><td>\$0</td></tr> <tr> <td>Total Area</td><td>6,000</td><td></td><td></td></tr> <tr> <td>Potential Gross Income</td><td></td><td></td><td>\$173,000</td></tr> </table>				Tenant Space	Area ft ²	Market Rent	Totals	Anchor Tenant 1 Age:	1,000	\$10.00	\$10,000	Anchor Tenant 2 Age:	0	\$0.00	\$0	CRU Food Store Age:	0	\$0.00	\$0	CRU Drug Store	0	\$0.00	\$0	CRU Junior Anchor 10,000 to 20,000 ft ²	0	\$0.00	\$0	CRU Junior Anchor > 20,001 ft ²	0	\$0.00	\$0	CRUs <1,000 ft ²	0	\$0.00	\$0	CRUs 1,001 to 3,000 ft ²	3,000	\$30.00	\$90,000	CRUs 3,001 to 5,000 ft ²	0	\$0.00	\$0	CRUs 5,001 to 10,000 ft ²	0	\$0.00	\$0	CRU - Restaurants	0	\$0.00	\$0	CRU - Restaurants Good/Fast Food	0	\$0.00	\$0	CRU - Theatre	0	\$0.00	\$0	CRU - Other: 0	0	\$0.00	\$0	CRU - Auto Service	0	\$0.00	\$0	CRU - Bank	0	\$0.00	\$0	CRU - Library	0	\$0.00	\$0	Office Space	1,000	\$12.00	\$12,000	Storage	1,000	\$1.00	\$1,000	Land Lease	0	\$60,000.00	\$60,000	Parking Stall Count: 0	0	\$0.00	\$0	Total Area	6,000			Potential Gross Income			\$173,000	<div>ANCHOR GLA x MARKET RENT = ANCHOR POI Example: 1,000 sqft x \$10 = \$10,000</div> <div>CRU GLA x MARKET RENT = CRU POI Example: 3,000 sqft x \$30 = \$90,000</div>
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Structural Allowance	2%	\$	3,401																																																																																																		
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Anchors	10	\$9.00	\$	90																																																																																																	
CRU	75	\$13.00	\$	975																																																																																																	
Office	50	\$13.00	\$	650																																																																																																	
Net Operating Income			\$	164,934																																																																																																	
NOTE: Vacancy shortfall calculation does not include storage space.	<table> <tr> <th>Market Value</th><th></th><th></th><th></th></tr> <tr> <td>Capitalization Rate</td><td></td><td></td><td>6.50%</td></tr> <tr> <td>Value Sub-total</td><td></td><td>\$</td><td>2,537,446</td></tr> <tr> <td>Other Value</td><td></td><td>\$</td><td>-</td></tr> <tr> <td>2015 Market Value Estimate</td><td></td><td>\$</td><td>2,537,446</td></tr> <tr> <td>Rounded</td><td></td><td>\$</td><td>2,537,000</td></tr> </table>				Market Value				Capitalization Rate			6.50%	Value Sub-total		\$	2,537,446	Other Value		\$	-	2015 Market Value Estimate		\$	2,537,446	Rounded		\$	2,537,000	<div>ANCHOR SQFT x TYPICAL VACANCY RATE x TYPICAL VACANCY SHORTFALL AMOUNT (CAM CHARGES) = ANCHOR VACANCY SHORTFALL Example: 1,000 sqft * 0.01 = 10 * \$3.50 = \$35</div> <div>CRU SQFT x TYPICAL VACANCY RATE x TYPICAL VACANCY SHORTFALL AMOUNT (CAM CHARGES) = CRU VACANCY SHORTFALL Example: 3,000 sqft * 0.025 = 75 * \$25 = \$1,875</div> <div>OFFICE SQFT x TYPICAL VACANCY RATE x TYPICAL VACANCY SHORTFALL AMOUNT (CAM CHARGES) = OFFICE VACANCY SHORTFALL Example: 1,000 sqft * 0.05 = 50 * \$5 = \$250</div>																																																																								
Market Value																																																																																																					
Capitalization Rate			6.50%																																																																																																		
Value Sub-total		\$	2,537,446																																																																																																		
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2015 Market Value Estimate		\$	2,537,446																																																																																																		
Rounded		\$	2,537,000																																																																																																		
Please see Adjustments definitions	<table> <tr> <th>Other Value Description</th><th></th><th></th><th></th></tr> <tr> <td>Construction Allowance</td><td>\$</td><td>-</td><td></td></tr> <tr> <td>Service Station Equipment</td><td>\$</td><td>-</td><td></td></tr> <tr> <td>Excess Land</td><td>\$</td><td>-</td><td></td></tr> <tr> <td>Additional Buildings</td><td>\$</td><td>-</td><td></td></tr> <tr> <td>Other (i)</td><td>\$</td><td>-</td><td></td></tr> </table>				Other Value Description				Construction Allowance	\$	-		Service Station Equipment	\$	-		Excess Land	\$	-		Additional Buildings	\$	-		Other (i)	\$	-		<div>NOI = EGI LESS STRUCTURAL ALLOWANCE LESS VACANT SPACE SHORTFALL Example: \$169,050 - \$3,381 - \$2,472.985 = \$163,186.015</div> <div>MARKET VALUE = NOI / CAP RATE Example: \$163,186.015 / 0.065 = \$2,510,554.077</div>																																																																								
Other Value Description																																																																																																					
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	<div>FINAL MARKET VALUE ESTIMATE UTILIZING THE INCOME APPROACH</div>																																																																																																				

Variables

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



Investment Classification

Investment classification is based on the following criteria:

Class A

- Anchor-driven developments
- Typical market rents for 1,000-3,000sf space type are \$33 per square foot and up
- Attract premier, prestigious and financially healthy tenants
- Located in new and/or expanding areas
- Typical age is 1998 and newer

Class B

- Anchor-driven developments
- Typical market rents for 1,000-3,000sf space type are \$22-\$32 per square foot
- Compete for a wide range of quality tenants
- Located in proximity to fully-developed areas
- Typical age is 1974 and newer

Class C

- Generally no anchor
 - Typical market rents for 1,000-3,000sf space type are \$16-\$24 per square foot and up
 - Compete for tenants seeking functional space
 - Located in less desirable areas
 - Typical age is 1958 and newer
-

Condition

The overall property condition 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:

- 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.

Unless otherwise noted, properties in this inventory are in average condition for their age.

Effective Year Built

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 improvement's remaining economic life.

Location

Shopping centre properties are stratified based on geographic areas referred to as study areas. These typically encompass a group of neighbourhoods, within which the properties 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 (vehicular and/or pedestrian), age of construction, and/or proximity to a particular population demographic.

Size

Gross Leasable Area (GLA) is the total area designed for the occupancy and exclusive use of the tenants, including basements and mezzanines; measured from the centre of joint partitioning to the outside wall surface. For shopping centres, typically the GLA reported by owners on their returned Request for Information (RFI) documents, is the size used.

Space Types

The following three space types have city-wide rental rates:

Anchor space is typically has a gross leasable area of at least 60,000 square feet and often occupied by national retailers. They increase the attraction of neighbouring commercial retail unit spaces. Anchor units have been further stratified based on effective age. Older anchor spaces (1994 and older) have a lower rate than newer (1995 and newer) anchor spaces. If upper level retail space is present for anchor space, a separate rent and size for the upper floor space will be shown on the proforma (Anchor 2). Please see Upper level retail space definition).

Grocery stores, also known as food stores, are self-service shops offering a wide variety of food and household products, organized into aisles. They typically comprise meat, fresh produce, dairy, baked goods along with shelf space reserved for canned and packaged goods, as well as for various non-food items such as kitchenware, household cleaners, pharmacy products, and pet supplies. Grocery stores are less than 60,000 square feet and are stratified by effective age. Older grocery stores (1989 and older) have a lower rate than newer 1990 and newer) grocery store space.

Drug stores are a specialized space consisting of commercial retail units or pad space. They often have good exposure sites within the shopping centre and may sometimes have drive-thrus. They provide a medical service and their construction includes secured areas for controlled pharmaceuticals. They are stratified by size. Larger drug stores (12,501 and larger) have a lower rate than smaller (3,000 to 12,500sf) drug stores.

The following space types have rental rates that vary by study area location:

Commercial Retail Units (CRUs) are general retail spaces. They have been stratified based on gross leasable area as follows:

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

Auto service unfinished space designed for vehicles to enter the structure and generally there are large bay doors and service pit or lifts. Typically, it consists of automobile service bays, muffler, oil, tire or mechanical repair services.

Bank space is typically CRUs or pad space that provides a financial service. These spaces are an attractant to other CRU spaces, and their construction includes reinforced walls, safes and other features to secure financial products.

Junior Anchors are not as large as anchor tenants but are still large enough to be considered a draw for the shopping centre. They are stratified by size (GLA of 10,001 to 20,000 square feet or greater than 20,000 square feet).

Land lease is a lease for a specific portion of land subject to specified terms. On the shopping centre pro forma, land leases are used exclusively for gas stations. The improvements are valued based on their depreciated cost to construct under service station equipment (SSE).

Library space is utilized for an organized collection of information resources made accessible to a defined community. These are generally similar in size to junior anchor spaces.

Office space is utilized, designed, or intended for typical office use, and typically located on the second floor or higher levels of a structure. Main floor office that experiences similar access and exposure as retail units is treated as a CRU space for the purpose of valuation. See Suburban office assessment methodology guide.

Other commercial retail unit space could include finished mezzanine, or seasonal, or garden centre space. Mezzanine space is an intermediate floor between floors of a building and usually smaller than the main floor. A mezzanine has a low ceiling and projects in the form of a balcony.

Restaurants are food-serving establishments that contain dedicated food preparation, kitchen, and sitting areas.

Restaurant Good/Fast Food generally have a higher level of finish than most other CRUs, and have improved electrical, plumbing and venting. They are generally national tenants, including fast food franchises, which often have drive-thrus. Based on their similar performance, Restaurant Good and Restaurant Fast Food have been grouped together.

Storage is typically unfinished space that is of less utility than warehouse space. It is less accessible and not directly contiguous with the rest of the space.

Theatre space is dedicated for film viewing, projection, and supporting retail. Theatres are found to be similar in size to junior anchor spaces except with film projection space.

Upper level retail space is located on a second floor or higher level, in addition to the main floor retailer. It receives a lower rate than the main floor, based on 70% of the main floor rate.

Adjustments

Additional Building is the assessed value added for other buildings situated on the subject site.

Associated Lots is an adjustment based upon a separate but related parcel(s) required to satisfy the operation of a neighbouring property.

Buildings Under Construction are improvements that are not complete as of the condition date. The adjustment is based on the cost rates from the Marshall & Swift manual, for the portion completed (also called percent complete).

Construction Allowance is an allowance provided for leasable space that is without dividing walls, floor coverings, ceiling or other finishes (ie. shell space). The adjustment is based on the cost rates from the Marshall & Swift manual.

Contamination refers to property that has been affected by environmental contamination which includes adverse conditions resulting from the release of hazardous substances into the air, surface water, groundwater, or soil. Contaminated property, in some cases, may warrant an adjustment.

Excess Land on an improved site is the land not needed to serve or support the existing improvement. It is also the portion of the parcel not needed to accommodate the site's primary highest and best use. Excess land may be separated from the larger parcel (sub-divided) and have its own highest and best use, or it may allow for future expansion of the existing or anticipated improvement. Excess land value is derived from assessed commercial land values. Please refer to the 2016 Commercial Land Methodology Guide.

Service Station Equipment (SSE) is the value of the service station equipment, including pumps, underground tanks, canopy structures, car wash structures and equipment. The cost value is based on the Marshall & Swift Manual.

Surplus Land is the land not necessary to support the highest and best use of the existing improvement but, because of physical limitations, building placement, or neighborhood norms, cannot be sold off separately. Surplus land may or may not contribute positively to value, and may or may not accommodate future expansion of an existing or anticipated improvement.

Topography refers to the surface features of a property and may include hills, swamps, gullies, or ravines. Adjustments may be applied when topographical constraints affect the overall suitability of a parcel for potential development.

Other Definitions

Actual zoning is set by the Edmonton Zoning Bylaw 12800 and regulates the development of a parcel.

Effective zoning is applied to reflect the current use and development of a parcel. The effective zoning may differ the actual zoning when current use differs from that which is permitted by the actual zoning as updated by Edmonton Zoning Bylaw 12800 (ie. legal nonconforming use).

Gross Building Area (GBA) is the total floor area of a building, including below-grade space but excluding unenclosed areas, measured from the exterior of the walls. All enclosed floors of the building including basements, mechanical equipment floors, penthouses, and the like are included in the measurement. Parking spaces and parking garages are excluded.

Site Coverage is the relationship, expressed as a ratio, between the total footprint area of the improvement(s) and the amount of land associated with it. Site coverage is used to determine if excess or surplus land exists.





















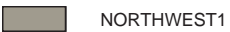







Provincial Quality Standards

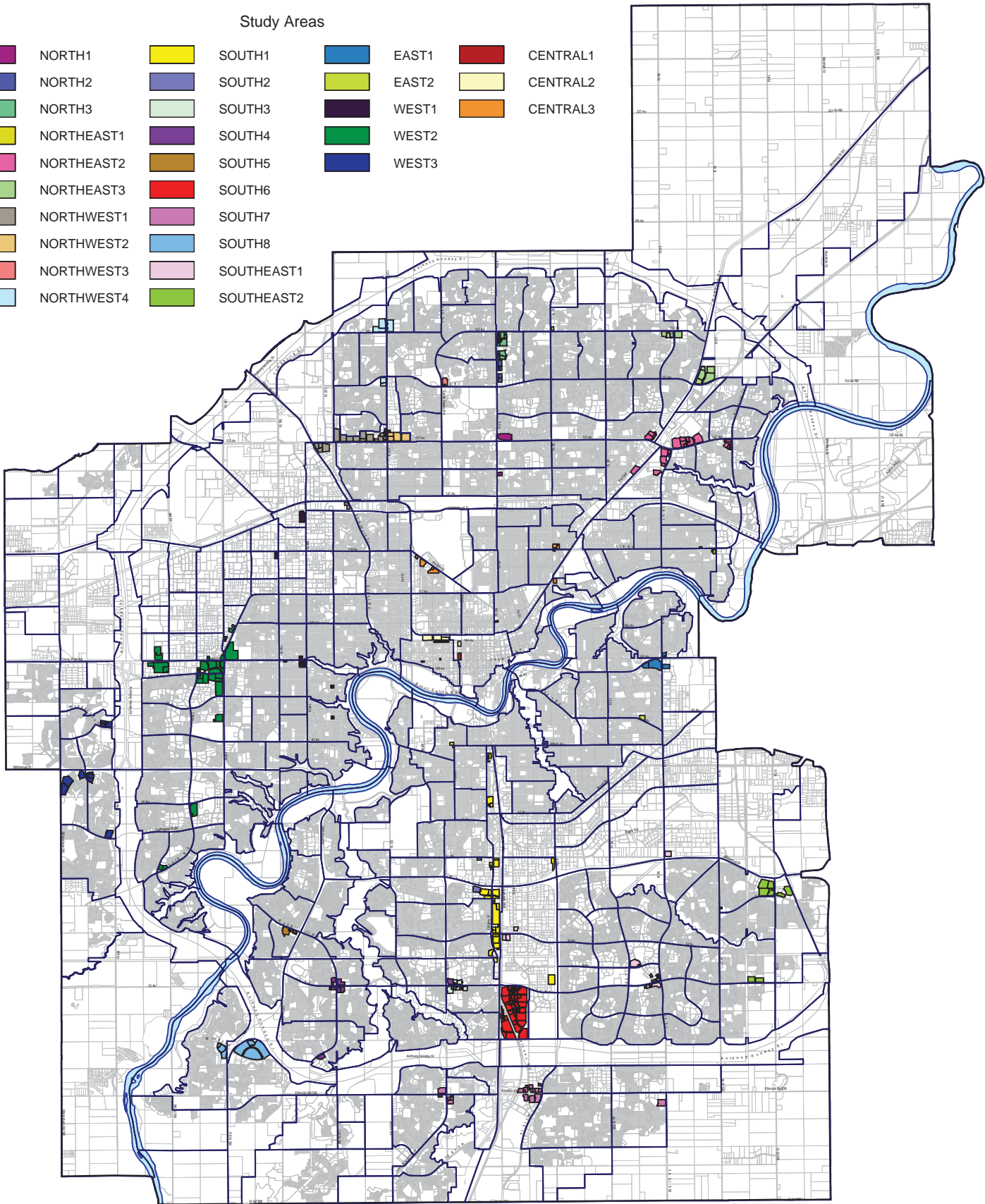
The assessment models, the process utilized, and the results are submitted annually to the Assessment Services Branch of the Department of Municipal Affairs for audit purposes. This audit determines the accuracy of our predictions relative to the market place, and is a direct reflection on the accuracy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

Shopping Centre Study Areas for 2016 Assessment

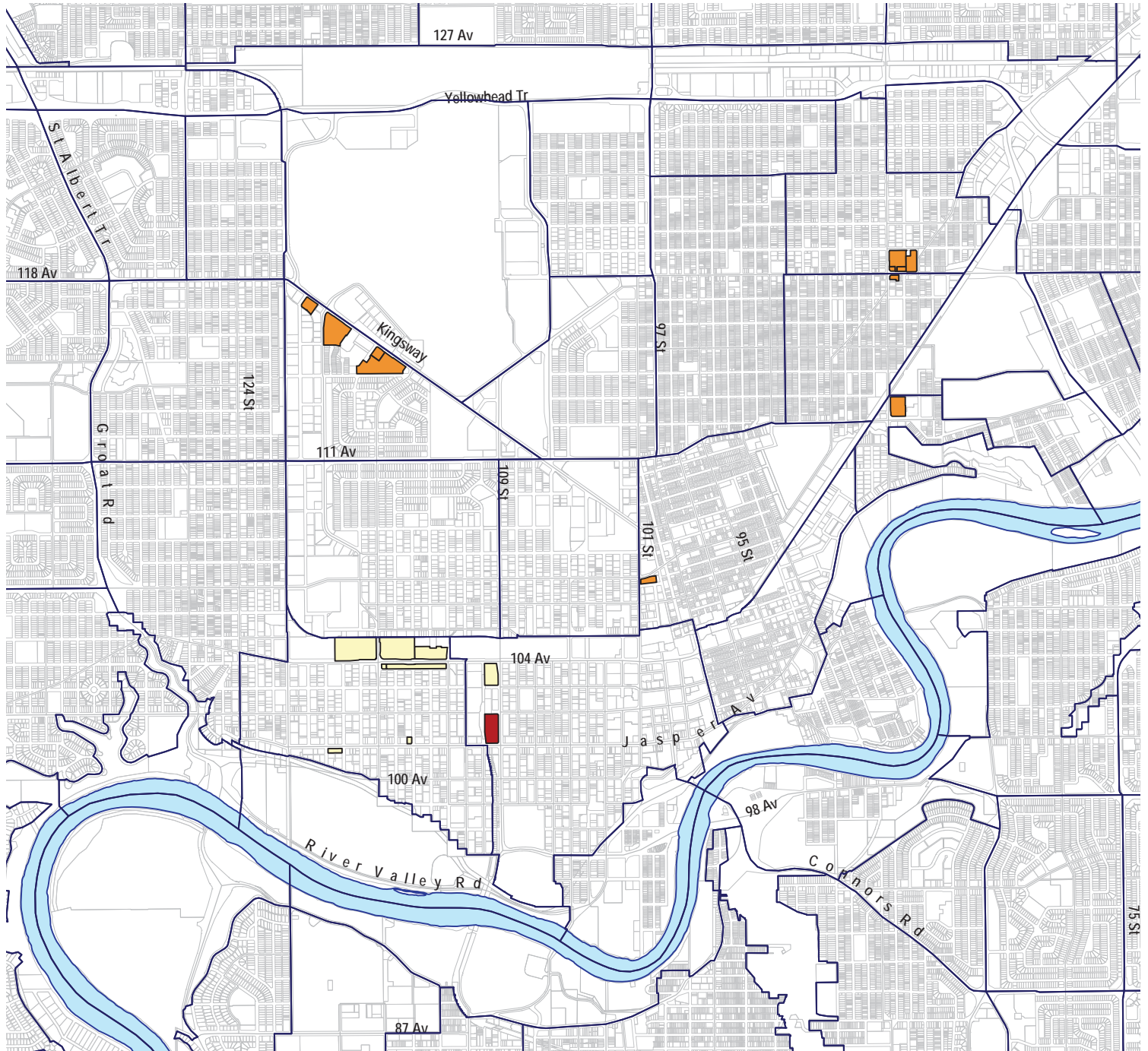
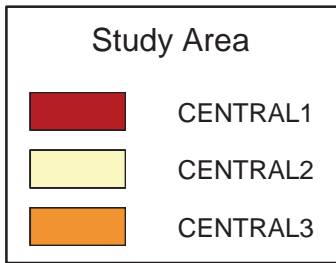


Study Areas

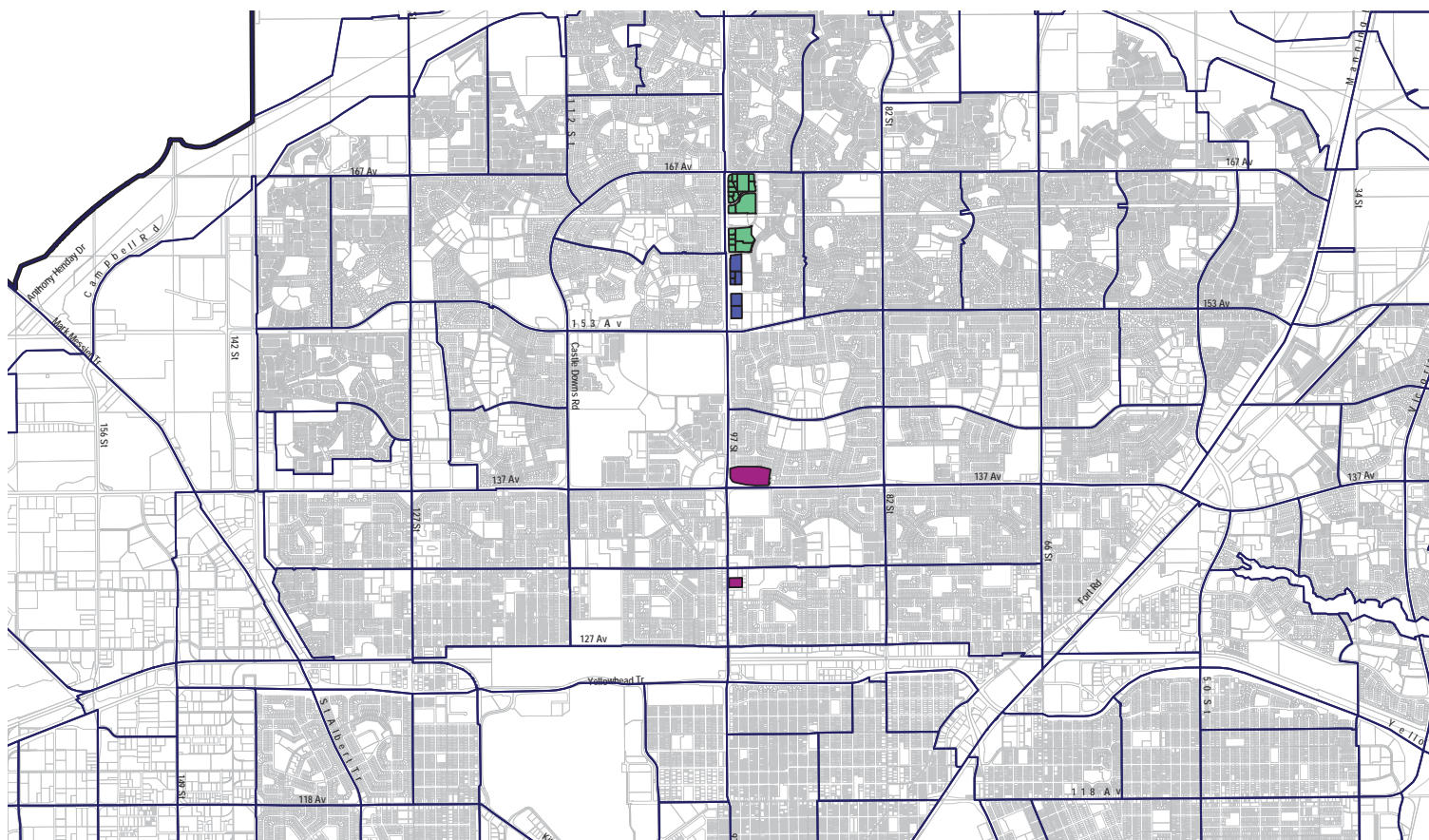
- | | | | |
|---|--|---|--|
|  NORTH1 |  SOUTH1 |  EAST1 |  CENTRAL1 |
|  NORTH2 |  SOUTH2 |  EAST2 |  CENTRAL2 |
|  NORTH3 |  SOUTH3 |  WEST1 |  CENTRAL3 |
|  NORTHEAST1 |  SOUTH4 |  WEST2 | |
|  NORTHEAST2 |  SOUTH5 |  WEST3 | |
|  NORTHEAST3 |  SOUTH6 | | |
|  NORTHWEST1 |  SOUTH7 | | |
|  NORTHWEST2 |  SOUTH8 | | |
|  NORTHWEST3 |  SOUTHEAST1 | | |
|  NORTHWEST4 |  SOUTHEAST2 | | |



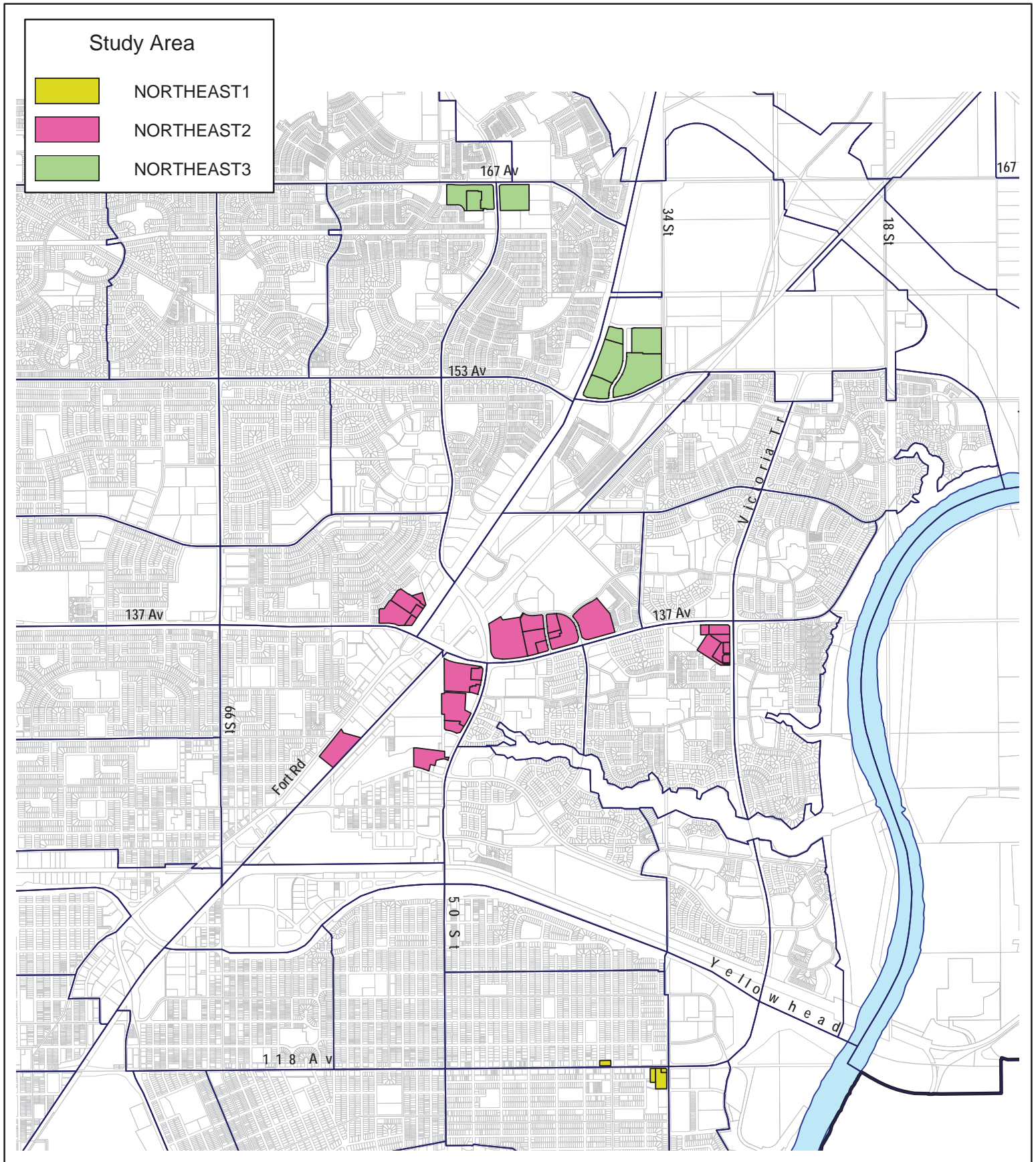
Shopping Centre Study Areas for 2016 Assessment: CENTRAL



NORTH1
NORTH2
NORTH3



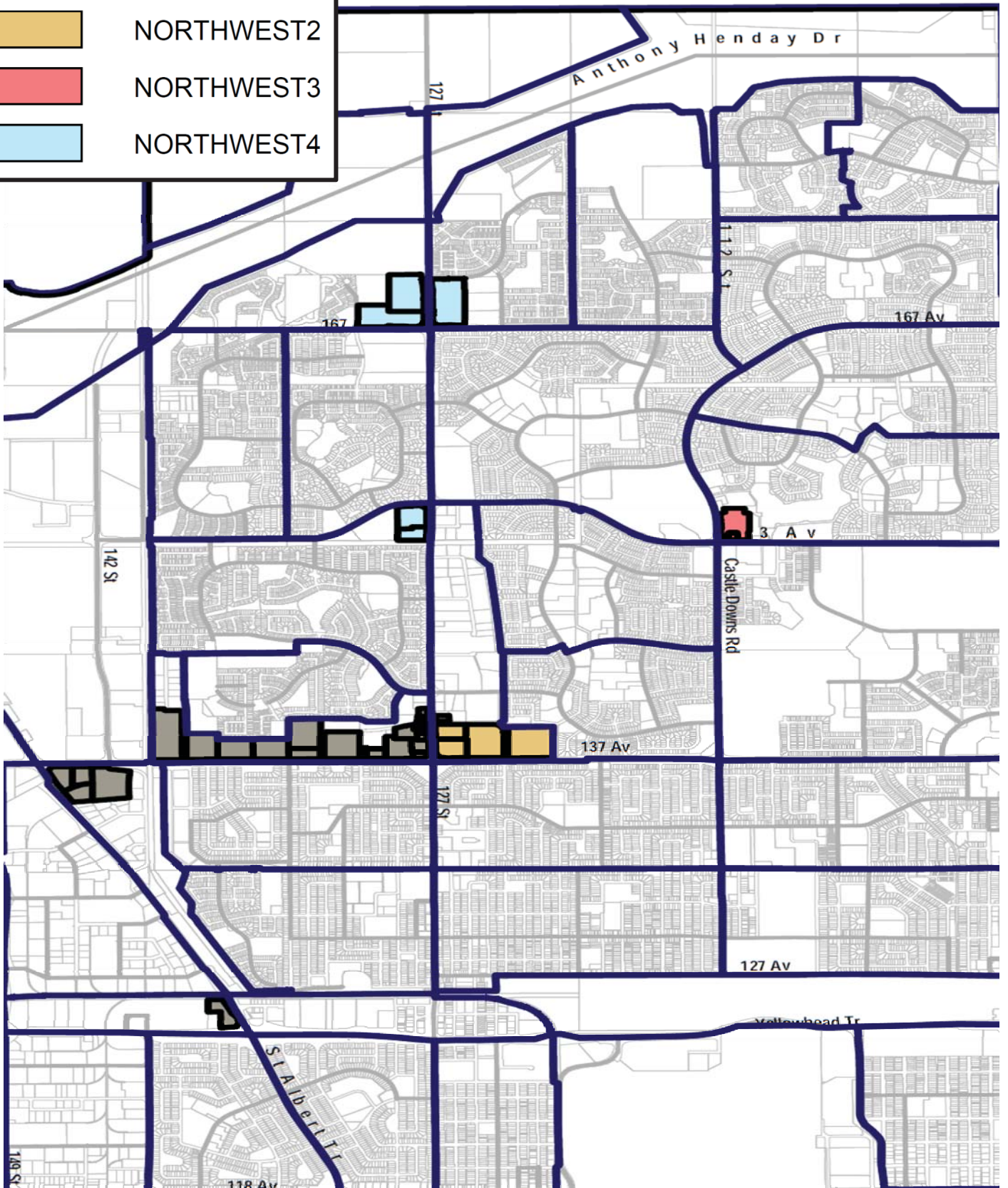
Shopping Centre Study Areas for 2016 Assessment: NORTHEAST



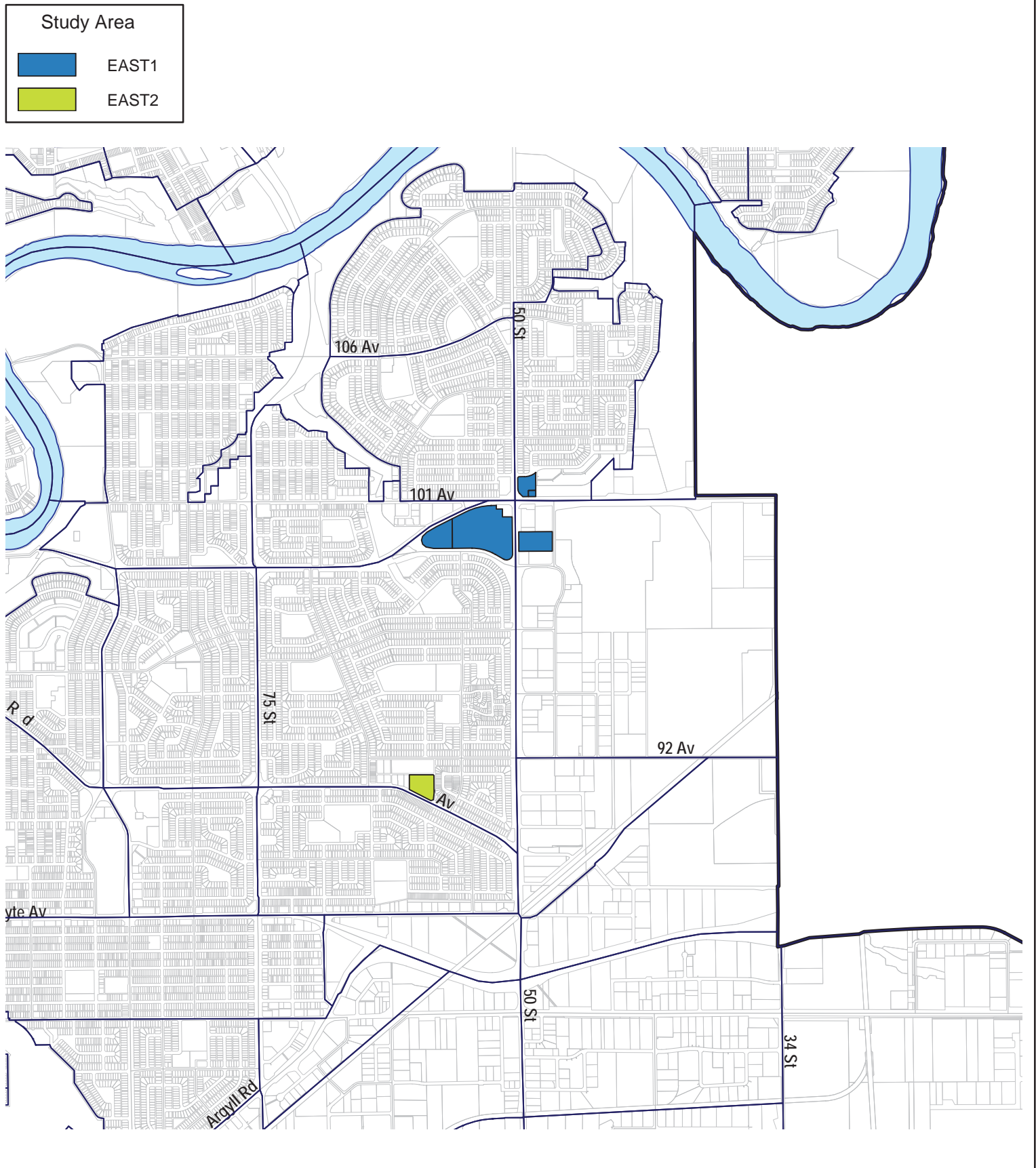
Shopping Centre Study Areas for 2016 Assessment



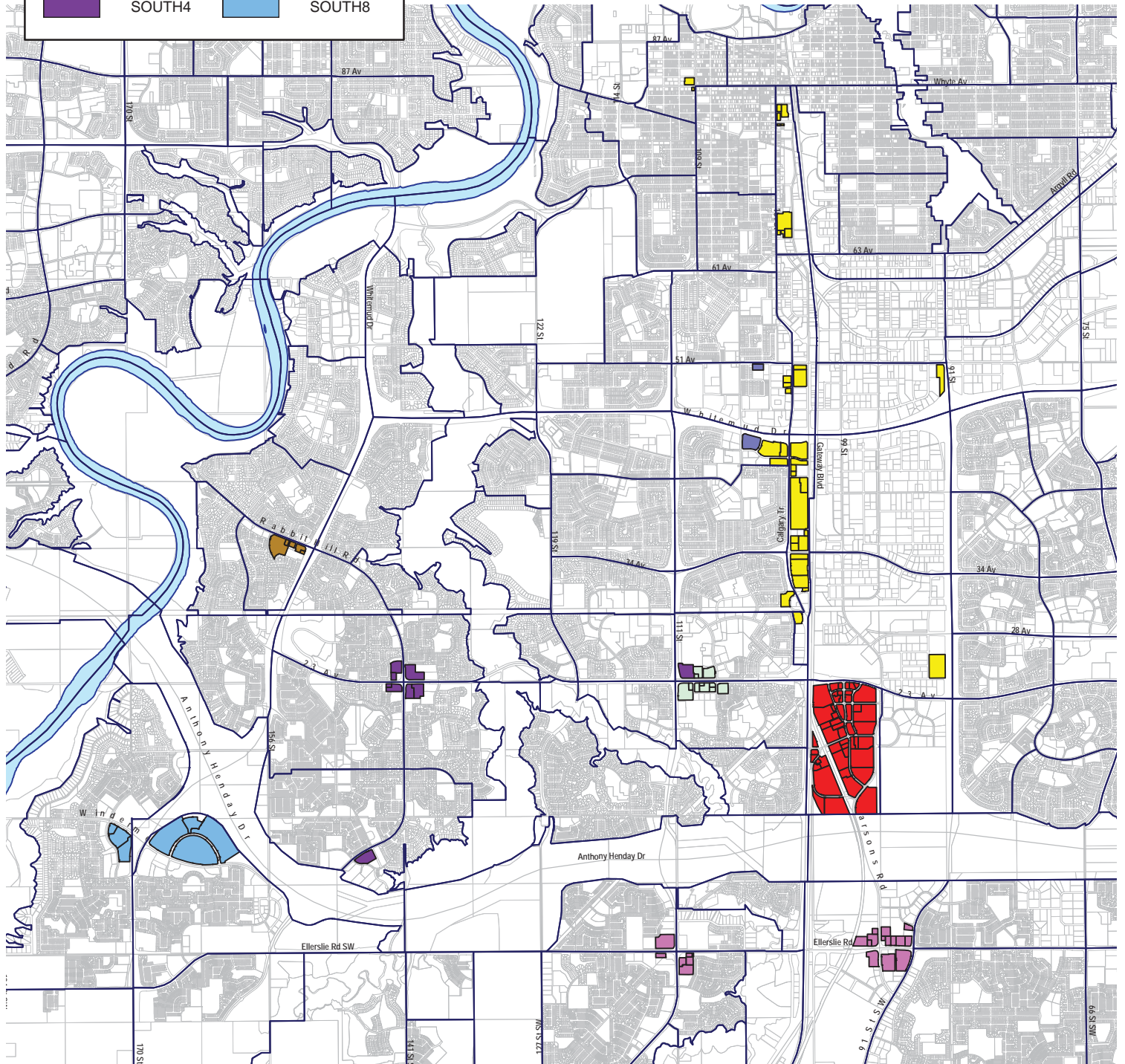
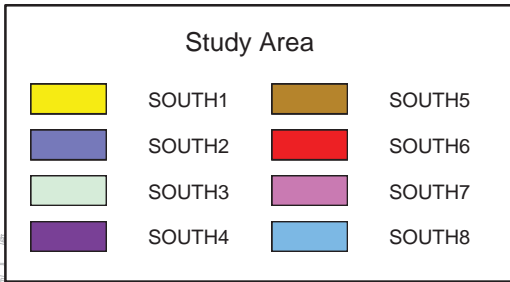
- NORTHWEST1
- NORTHWEST2
- NORTHWEST3
- NORTHWEST4



Shopping Centre Study Areas for 2016 Assessment: EAST



Shopping Centre Study Areas for 2016 Assessment: SOUTH



Shopping Centre Study Areas for 2016 Assessment: SOUTHEAST



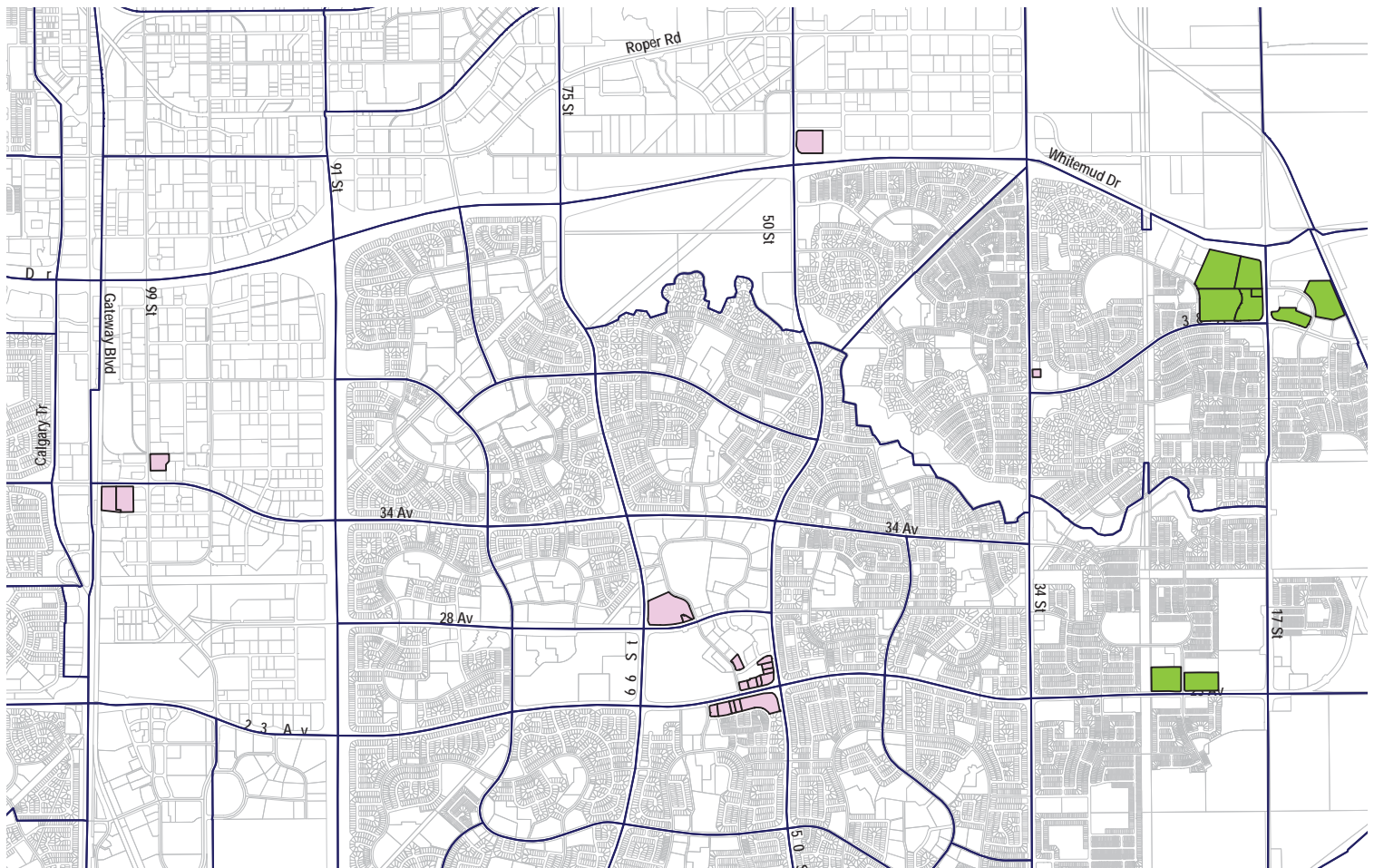
Study Area



SOUTHEAST1



SOUTHEAST2



Shopping Centre Study Areas for 2016 Assessment: WEST

