

2018

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

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Edmonton



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Scope

This guide is an aid in explaining how Retail/Office condos 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, 2018*, Alta Reg 203/17, (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, 2017;
- would have realized if it had been sold on July 1, 2017;
- 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.



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 .s.284(1)(r)

s.1(k) "**regulated property**" means

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

MRAT s.1(k)

s.9(1) the **valuation standard** for the land and improvements is market value unless subsection (2)... applies

MRAT s.9(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.5 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.5

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.6 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.6

s.1(g) "**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(g)

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



31(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.31(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.”

Property Appraisal and Assessment Administration, 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.31(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*

MRAT, s.31 (a), (b) and (d)

s.33(3) Information prescribed...does not include coefficients

MRAT, s.33(3)

Valuation Model

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

Depending on the property type, multiple regression analysis or other mass appraisal techniques are used to determine variables, factors, and coefficients.

*“**Multiple Regression Analysis (MRA)**: a statistical technique used to analyze data to predict market value (dependent variable) from known values of property characteristics (independent variables)”*

Property Appraisal and Assessment Administration, p. 653

An assessed value is calculated by applying the appropriate valuation model to individual properties within a group.

Commercial Property Types

Retail and Office Condominiums are single units that are typically part of a larger building or building complex. Each unit is registered with its own title and therefore can be bought and sold separately. Some properties are of mixed use consisting of retail, commercial, and residential units.

Approaches to Value

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

Direct Sales Approach	Typical market value (or some other characteristic) is determined by referencing comparable sales and other market data. 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 Sales Approach

For this property group, the assessment is determined using the direct sales 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 marketplace. 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. Non-arms length transactions are not used in valuation.

The City of Edmonton reviews sales occurring from July 1, 2012 to June 30, 2017 for valuation of Condominium properties. 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 2018

Tax Roll Account
Property Address

Taxation year 2018 **Date of mailing**
Property Assessment **\$314,000**

Date of request

Property Details
Legal Plan: 123 Unit: 1
Neighborhood 0000 - TEST
Effective Zoning CB2 - General Business District
Actual Zoning DC2 - Comprehensively Planned Development District
Lot Size 2,724 Ft2 .063 Ac **Site Coverage Percent** 36 %

Unit Of Measure IMPERIAL

Tax Class / Land Use / Taxable Status
COMMERCIAL
 100 % 209 - RETAIL/WHLSE CONDOMINIUM UNIT
 01-JAN-2018 To 31-DEC-2018 100 % FULLY TAXABLE

Building Details		%Comp	Condition	Yr Built	Eff Yr Built	Gross Area	Net Area
No.	Market Building Class						
1	RETAIL STORE	100	AVERAGE	2002	2002	1,440	1,440

Direct Sales Approach Summary

ACCOUNT	LOCATION WEST	1
ACCOUNT	TRAFFIC	MODERATE
BUILDING - 1 RETSTORE	UNIT FINISH	ORIGINAL
BUILDING - 1 RETSTORE	TOTAL MAIN FLOOR OFFICE AREA	990
BUILDING - 1 RETSTORE	TOTAL MEZZ FLOOR OFFICE AREA	450
BUILDING - 1 RETSTORE	BUILD YEAR	2002
BUILDING - 1 RETSTORE	NEIGHBOURHOOD	4180
BUILDING - 1 RETSTORE	MARKET BUILDING CLASS	RETSTORE
BUILDING	TOTAL BUILDING VALUE	314000

Factors

Variables

Property Assessment **314,000**

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.

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Variables

Below is the list of variables that affect the assessment value for 2018.

Condition	Effective Year Built
Location	Main Floor Area
Traffic Influence	Upper Floor Area
Space Type	Basement Area
	Mezzanine Area

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;
- outdated construction materials, design or techniques;
- deferred maintenance requiring rehabilitation, replacement, or major repairs;
- reduced utility with signs of structural decay.

Average:

- average maintenance;
- minor repairs or rehabilitation of some components required;
- within established norm for the era;

Good:

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

Effective Year Built is the chronological age of a property adjusted to reflect an addition or significant renovation that extends the improvement's remaining economic life. The exterior components that when replaced or extensively renovated affect the remaining economic life of a property include the roof, the building envelope (windows and doors, exterior siding, walls including insulation and vapor barrier, and other structural components), the foundation, and mechanical components (electrical, plumbing and HVAC). The effective age of a property can also be altered due to additions.

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.

Floor is the location where a commercial unit is situated within the condominium complex (e.g, Second Floor). Buildings can have more than one floor. A commercial condominium building might have a basement, main, mezzanine and upper floors from two to six. A condominium unit may have more than one floor which can be found on the registered condominium plan.

Mezzanine is an intermediate floor between main floors of a building and is usually smaller than the main floor. A mezzanine may have a low ceiling and projects in the form of a balcony. Generally a mezzanine level cannot be leased or sold separately from the unit and is not listed on the registered condominium plan.

Size is taken from the registered condominium plan. In addition to registered size an owner might construct a mezzanine level which is included into assessment as a floor variable which provides amenity/utility. Please see mezzanine definition. The base floor recognized by the model is the main floor. Floors above main or below main might have a discounted rate.

Space Type

- **Office Space:** Space that is utilized, designed or intended for typical office use.
- **CRU Space:** Commercial Retail Unit (CRU) spaces are general retail spaces.

Size:	Size Category:
CRU < 1,001 ft ²	CRU LESS
CRU 1,001 to 3,000 ft ²	CRU MED (Medium)
CRU 3,001 to 5,000 ft ²	CRU MAX (Maximum)
CRU 5,001 to 10,000 ft ²	CRU MEG (Mega)
CRU > 10,000 ft ²	CRU EXT (Extreme)

- **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.

Traffic Influence is based on average annual weekday traffic volume counts as reported on the 2015 AAWDT Report: Average Annual Weekday Traffic Volumes Report. This report can be found on the City's website at http://www.edmonton.ca/transportation/traffic_reports/traffic-reports-flow-maps.aspx

None	< 1,500 vehicles
Minor	1,500 – 5,000
Moderate	5,001 – 15,000
Major	15,001 – 50,000
Extreme	> 50,000

Adjustments

Adjustments may be made for the following.

Original is fully finished space whereby tenants can move in and utilize the space.

Unfinished Space is without dividing walls, floor coverings, ceiling or other finishes. The adjustment is based on the cost rates from the Marshall & Swift manual. This is typically seen in new condominium units in new buildings listed for sale on the market.

Definitions

Actual Zoning is set by the *Edmonton Zoning Bylaw 12800* and regulates the use and development of a parcel. For 2018 actual zoning did not affect value.

Common Area/Bare Land Areas may or may not be units in the inventory that serve as common areas for other units. Some of these units are separately titled and, therefore, are separately assessed at a nominal value. Some examples of these common areas include: hallways, stairways, and elevators. Some of these units have a unit factor of 1 on the registered condominium plan. Typically, these units belong to the condominium association. Typically receives a nominal assessment i.e. \$500.

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 2018 effective zoning did not affect value.

Land Use Codes

List of LUCs used for commercial condominiums:

LUC	LUC NAME
200	ONE STORY RETAIL/WHOLESALE
209	RETAIL/WHSE 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
282	NON RESIDENTIAL COMMON AREA
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 2018 the MBC did not affect value.

Parking: is defined as titled parking: either surface, underground, garage or covered stall.

- **Surface Stall:** Parking located on ground level that is not covered and has no protection from the outside elements.
- **Underground Stall:** Parking located in an underground parking structure that is fully enclosed and protected from the outside elements.
- **Garage:** Parking located in a parking structure fully enclosed and protected from the outside elements.
- **Covered stall:** Parking above ground that has some roof protection from the outside elements.

Quality 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.

- **01 Poor** is the minimum standard of construction and falls far short of meeting building requirements.
- **02 Economy** is a low cost building that seldom meets building requirements.
- **03 Substandard** is a low to moderate cost building where building requirements are only occasionally satisfied.
- **04 Fair** is a moderate cost building that typically meets building requirements but has little or no attention given to decorative features.
- **05 Standard** is an average project building that meets building requirements for the era.
- **06 Semi-Custom** is an above average building exceeds building requirements for the era. Finishes are generally upgraded with a mixture of standard and better quality materials with decorative features.
- **07 Custom** is a good building exceeding building requirements for the era. Finishes are good quality materials and workmanship.
- **08 Good Custom** is a very good building exceeding building requirements for the era. Finishes are very good materials with more than average decorative features.
- **09 Expensive** is a good building far exceeding building requirements for the era. Finishes are expensive materials and attention to detail is evident.
- **10 Luxurious** is the ultimate in building far exceeding building requirements for the era. Finishes are of luxurious quality materials and may be imported. Decorative features and workmanship is the highest quality with elaborate detail.

Provincial Quality Standards

For Condominiums properties, the City of Edmonton used the direct sales approach to calculate the 2018 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 marketplace, 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*.

References

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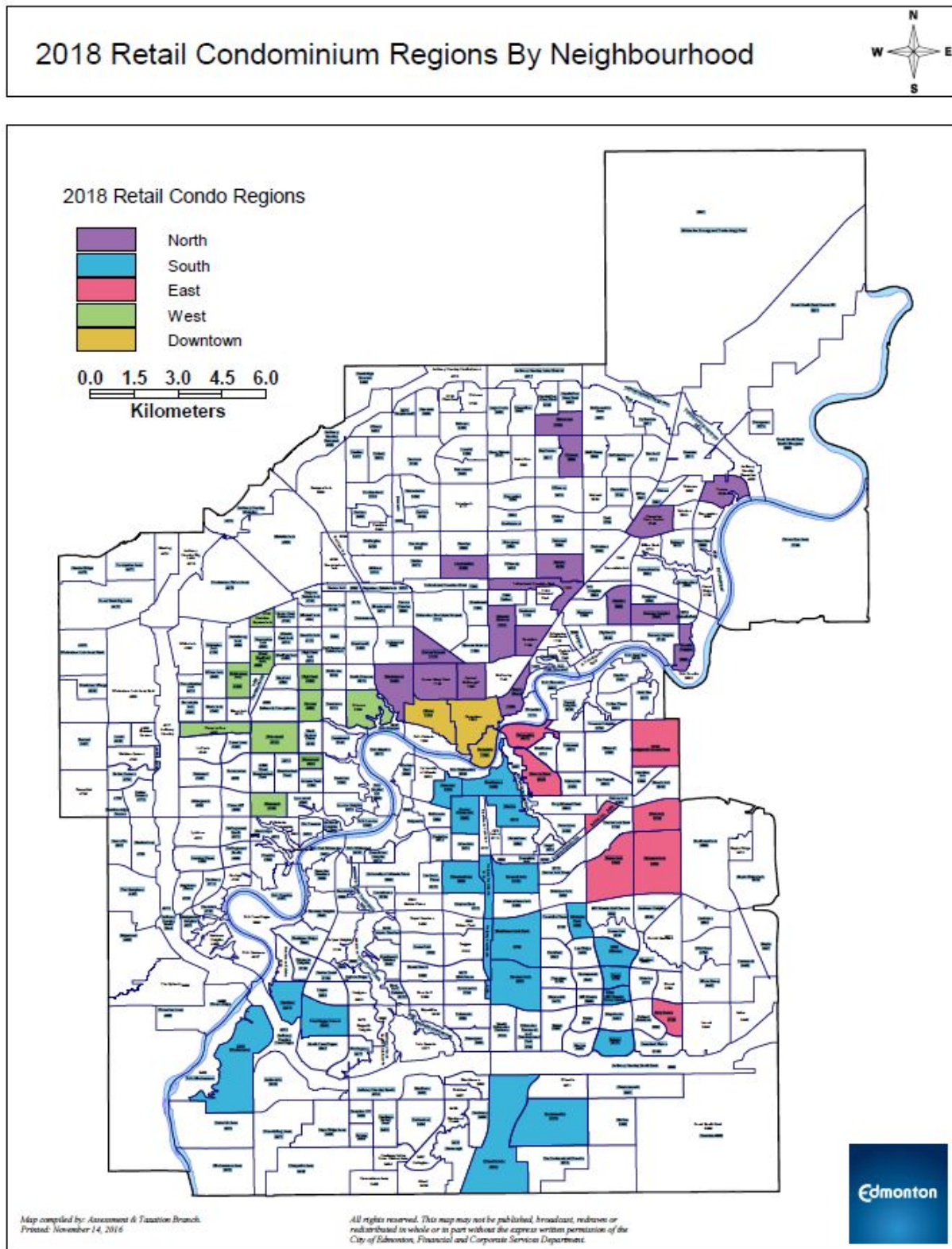
Revision History

January 22, 2018 - Revised:

- Valuation Model - pg 6
- Sample Assessment Detail Report - pg 9
- Variables - pg 10
- References - pg 14
- Time Adjustment Factors - pg 18

February 20, 2018 - Revised: Traffic Influence - pg 12

Map: Condo Regions by Neighbourhood



Time Adjustment Factors



Time Adjustment Factor's 2018 RETAIL AND OFFICE CONDOMINIUMS			
DATE	TAF	DATE	TAF
Jul-12	1.0953	Jan-15	1.0000
Aug-12	1.0913	Feb-15	1.0000
Sep-12	1.0874	Mar-15	1.0000
Oct-12	1.0834	Apr-15	1.0000
Nov-12	1.0794	May-15	1.0000
Dec-12	1.0755	Jun-15	1.0000
Jan-13	1.0716	Jul-15	1.0000
Feb-13	1.0677	Aug-15	1.0000
Mar-13	1.0639	Sep-15	1.0000
Apr-13	1.0600	Oct-15	1.0000
May-13	1.0561	Nov-15	1.0000
Jun-13	1.0523	Dec-15	1.0000
Jul-13	1.0485	Jan-16	1.0000
Aug-13	1.0447	Feb-16	1.0000
Sep-13	1.0409	Mar-16	1.0000
Oct-13	1.0371	Apr-16	1.0000
Nov-13	1.0333	May-16	1.0000
Dec-13	1.0296	Jun-16	1.0000
Jan-14	1.0258	Jul-16	1.0000
Feb-14	1.0221	Aug-16	1.0000
Mar-14	1.0184	Sep-16	1.0000
Apr-14	1.0147	Oct-16	1.0000
May-14	1.0110	Nov-16	1.0000
Jun-14	1.0073	Dec-16	1.0000
Jul-14	1.0037	Jan-17	1.0000
Aug-14	1.0000	Feb-17	1.0000
Sep-14	1.0000	Mar-17	1.0000
Oct-14	1.0000	Apr-17	1.0000
Nov-14	1.0000	May-17	1.0000
Dec-14	1.0000	Jun-17	1.0000