

2020

ASSESSMENT METHODOLOGY

COMMERCIAL RETAIL AND RETAIL PLAZA

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

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Edmonton



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Scope

This guide explains how Retail and Retail Plaza properties are valued for assessment purposes. The guide is intended as a tool and complements the assessor's judgment in the valuation process.

Introduction

Property assessments in the City of Edmonton are prepared in accordance with the requirements of the Municipal Government Act, R.S.A. 2000, c. M-26, (hereinafter "MGA") and the *Matters Relating to Assessment and Taxation Regulation, 2018*, Alta Reg 203/17, (hereinafter "MRAT"). The MRAT regulation establishes the valuation standard to be used, defines the procedures to be applied, and purposes 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.

Property assessments represent:

- an estimate of the value;
- of the fee simple estate in the property;
- as the property existed on December 31, 2019;
- reflecting typical market conditions;
- as if the property had been sold on July 1, 2019;
- on the open market;
- from a willing seller to a willing buyer.

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

The legislation requires the City of Edmonton to assess the fee simple estate.

"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 *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 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 properties
- 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, this includes: rights to be valued, effective date of valuation, and any limiting conditions. |
| Data Collection | Mass appraisal requires a 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.

s31 (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 Information prescribed ... does not include coefficients

MRAT, s.33(3)

Valuation Model

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

Commercial Property Types

Retail properties are typically unanchored freestanding buildings. Multiple freestanding buildings can be found on the same property. This includes street-front retail that may be abutting other retail properties. They are typically pedestrian-oriented. In conjunction with retail space, various uses on other floors can be found, such as residential and/or office space. Some will have on-street parking with pedestrian traffic.

Retail Plazas are properties that consist of 3 or more retail spaces or units often laid out in a continuous straight line (strip), a 'U' or 'L' shape configuration and are typically unanchored. Each individual unit may have outside signage which can be seen from the street. They are typically vehicle-oriented while some will have on-street parking with pedestrian traffic. Generally, each unit has a separate customer entrance, some may be accessed through a common corridor area. One or more retail orientated buildings may be on the parcel.

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

Residential Conversion properties were originally constructed for residential use. These properties were converted to commercial retail use. Conversion changes to these buildings typically include the removal of the residential kitchen and full bathrooms as they are not required for commercial retail uses.

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

Office buildings are designed for general commercial occupancy where the majority of the space type is office use. 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.

Shopping Centres are commercial establishments related in location, size, and type. Shopping centre properties are grouped into two formats: open air and enclosed format properties. Enclosed format properties are malls, which include super-regional, regional, and community shopping centres. Open air format properties are described below:

Power Centres are typically large shopping developments, with one or more anchor(s) and/or shadow anchor(s). Typically, these properties have direct 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 parcel and it is not a requirement that an anchor be on each parcel. Refer to definition of shadow anchor below.

Neighbourhood Shopping Centres are anchored and/or shadow anchored by a grocery store or a drug store greater than 8,000 square feet. They typically provide for the sale of convenience goods and personal services for the day-to-day living needs of the immediate neighbourhood. Neighbourhood shopping centres typically occur over large commercial areas that include more than parcels and it is not a requirement that the anchor(s) be on each parcel. Refer to definition of shadow anchor below.

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

Anchor space typically has a gross leasable area of at least 60,001 square feet on the main floor, has exterior access, and is 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 (1997 and older) have a lower rental rate than newer (1998 and newer) anchor spaces. If upper level retail space is present for anchor space, it may be reflected on a separate line on the Assessment Detail Report and receive a lower rental rate than the main floor, based on 70% of the main floor rental rate.

Shadow Anchors are anchors that are a draw to the area, but they exist on a different legal parcel. They can be seamlessly part of an adjacent shopping centre or in close proximity to a nearby centre. The overall concept is that nearby properties are not required to be on the same legal parcel as the anchor to benefit (e.g. through performance) from the traffic draw that the anchor generates to the area.

Additional details are available in the 2020 Downtown Office, 2020 Suburban Office and 2020 Neighbourhood, Power & Box Retail Assessment Methodology guides, which are provided online at Edmonton.ca.

Approaches to Value

The approaches to determine market value are the direct comparison, income, and cost approaches.

| | |
|-----------------------------------|--|
| Direct Comparison 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. |

Income Approach

For this property type, the assessment is determined using the income approach. The income approach best reflects the typical actions of buyers and sellers when purchasing income-producing properties. The City of Edmonton requests financial information from owners during the annual Request for Information (RFI) process.

Annually, property owners are required to provide the following via the RFI process:

- A completed Commercial Tenant Roll Form including information about space types (office, retail, warehouse, storage); tenant location; lease term; lease rate; operating expenses; tenant inducements and type; landlord and tenant improvements; escalations; other rent (signage, percent rent) and vacant space.
- Year-end financial statements including the Income Statement, a Schedule of Income and Expenses, and Notes.
- A complete Parking Details form including parking location, the number and type of stalls and rate per stall.
- Yearly Expenses for owner occupied properties including power, water & sewer, gas, waste removal, insurance and structural repairs.

The Income model analyzes the relationship between the variables of income producing properties and their income. The City of Edmonton uses **triple net rent** in its Income model. For 2020 valuation, income information from July 1, 2014 to June 30, 2019 was analyzed. The resulting model was then applied 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 validated. Validation may include; conducting site inspections and interviews, reviewing land title, title transfers (change of ownership), corporate searches, other land titles documents, sales validation questionnaires, and secondary data collection. The resulting validated sales are used to develop capitalization rates to use 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.**

For the 2020 valuation of Retail properties, sales occurring from July 1, 2014 to June 30, 2019 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 amount in dollars per square foot of leased area after adjustments have been made accounting for free rent periods.

Lease Types include gross leases, modified gross leases, single net leases, double net leases, and triple net leases. 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
 - **New** is a new lease agreement of a tenant occupying a space that was vacant or occupied by a previous tenant, may include tenant expansion.
 - **Renewal** is when a lease expires and the existing tenant signs a new lease term.
 - **Step-Up** is a scheduled change to the rental rate within the term of the existing lease.

Tenant Improvement Allowances is a dollar amount or allowance provided to the tenant by the landlord for the renovation or completion of the interior finish, which may or may not equal the full cost of construction or remodelling.

The City of Edmonton does not adjust for tenant improvement allowances. As the City is mandated through legislation to assess the *Fee Simple interest* of each property, it is inherent that the estimated market rent reflect fully finished space. When a tenant and landlord negotiate a base rental rate with a tenant improvement allowance as part of the rental agreement, they have agreed upon the rent that they believe the space can achieve as fully finished, not the rent it would achieve in its current state.

Tenant Inducements are incentives provided by landlords either to attract new tenants or retain existing tenants. Described below are the most common forms of tenant inducements:

- *Common area expense or operating expense reimbursement* is a form of tenant inducement

where operating expenses in excess of a predetermined base amount are reimbursed.

- *Relocation Allowance* is a credit offered by a landlord to cover relocation expenses incurred by tenants.
- A *buyout* is a termination of an existing lease whereby the landlord agrees to pay the remainder or terminate the original lease on behalf of the tenant.
- *Cash payments* are a signing bonus paid to tenants that enter into a new lease agreement.
- *Free rent or discounted rent* is an abatement of rent during some period of the lease term. Free rent is a reduction in the face rental rate, the amount appearing on the face of the lease, for a stated period of time. This adjustment is generally applied at the beginning of the lease term. For example, a lease is signed with free rent for the first three months of a five year lease.

Based on the information provided by the City of Edmonton through the RFI process, for 2020 valuation, tenant inducements and signage income were not typical in the marketplace for retail and retail plaza properties. Therefore, no adjustments were applied when determining typical market rent.

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 Assessment Detail Report.

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.

$$\text{GLA} \times \text{Market Rent for Space} = \text{PGI}$$

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.

Should a property demonstrate a history of higher than typical vacancy, the City may apply an adjusted stabilized vacancy allowance (chronic vacancy). In order to qualify for chronic vacancy, a property owner must provide the property's rent rolls from the last **3 consecutive years immediately preceding the valuation date** to show that the property has had a vacancy rate that falls within a range greater than the typical. The rent rolls must show that the property has experienced a vacancy greater than typical in each of the 3 preceding years. If this is demonstrated,

the average of the 3 years will determine which stabilized vacancy allowance is applied. The ranges and the corresponding stabilized chronic vacancy allowances are demonstrated in the chart below. The stabilized vacancy is applied on a per building basis. Storage space is not included in the vacancy allowance calculation.

| Actual Vacancy (over three years) | Stabilized Vacancy |
|--------------------------------------|--------------------|
| ≥ 10% to < 20% | 10% |
| ≥ 20% to < 30% | 15% |
| ≥ 30% to < 40% | 20% |
| ≥ 40% to < 50% | 25% |
| ≥ 50% to < 60% | 30% |
| ≥ 60% to < 80% | 35% |
| ≥ 80% to < 100% | 40% |

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. Storage space is not included in the vacancy shortfall calculation.

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

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 (Structural Repair Percentage) 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) reflects 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. ***The City of Edmonton derives the typical cap rate by time-adjusting the sale prices of similar Retail and Retail Plaza properties from the past 5 years to the valuation date; deriving a net operating income for each of these sales using market typical rents, vacancy allowances and operating costs; and then dividing the estimated net operating incomes by the time-adjusted sale prices.***

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

“**Type**” as indicated below specifies whether the variable applies to the account, unit, site or a specific improvement:

- Account - An adjustment that is applied to a property account. A property account includes the parcel of land and any improvements. .
- Unit - An adjustment that is applied to a condominium unit.
- Site - An adjustment that is applied to the parcel of land only.
- Building - An adjustment that is applied to the improvement only.

Sample Assessment Detail Report

Property Assessment Detail Report Assessment and Taxation



Account **1234567**

| | |
|----------------------------|---|
| Report Date | January 2, 2020 |
| 2020 Assessed Value | \$1,168,500 |
| Date of Issue | January 2, 2020 |
| Property Address | 12345 Street NW |
| Legal Description | Plan: 1234567 Block: 01 Lot: A1 |
| Neighbourhood | Westmount |
| Assessment Class | NON-RESIDENTIAL |
| Land Use | 100% Mixed-use retail building |
| Zoning | CNC - Neighbourhood Convenience Commercial District |
| Effective Zoning | CNC - Neighbourhood Convenience Commercial District |
| Taxable Status | January 1 - December 31, 2020; FULLY TAXABLE |
| Unit of Measurement | IMPERIAL (feet, square feet) |

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Factors Used to Calculate Your 2020 Assessed Value

| VARIABLE | FACTOR | MARKET VALUE APPROACH | INCOME |
|-----------------------|------------|-----------------------|--------|
| | | TYPE | |
| Valuation Group | RETAIL | Account | |
| Study Area | COMAREA164 | Account | |
| Traffic | MAJOR | Account | |
| Corner | 1 | Account | |
| Site Coverage (%) | 34 | Account | |
| Lot Size | 14,148 | Site | |
| Year Built | 1994 | Building - 1 | |
| Effective Year Built | 1994 | Building - 1 | |
| Total Main Floor Area | 4,529 | Building - 1 | |
| Condition | AVERAGE | Building - 1 | |
| Crumax Main Area | 4,529 | Building - 1 | |
| Crumax Main Rent (\$) | 18.5 | Building - 1 | |

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Property Assessment Detail Report
Assessment and Taxation

Account **1234567**



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| VARIABLE | FACTOR | MARKET VALUE APPROACH | |
|------------------------------|--------|-----------------------|--------------|
| | | INCOME | TYPE |
| Vacancy Main (%) | 5 | | Building - 1 |
| Effective Gross Income-Main | | 79,596 | Building - 1 |
| Total Effective Gross Income | | 79,596 | Building - 1 |
| Structural Repair (%) | 2 | -1,591 | Building - 1 |
| Vacancy Shortfall (\$) | 9 | -2,038 | Building - 1 |
| Net Operating Income | | 75,966 | Building - 1 |
| Capitalization Rate (%) | 6.5 | | Building - 1 |
| Total Building Value | | 1,168,717 | Building - 1 |

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Sample Manual Assessment Detail Report



Assessment Detail Report

2020 RETAIL PLAZA VALUATION SUMMARY

| | | | |
|-------------------|--------------------|------------------------------|-------------------------------|
| Roll Number: | 1234567 | Valuation Date: | July 1, 2019 |
| Address: | 12345 67 STREET NW | Valuation Group: | RETAIL PLAZA |
| Building Number: | 2 | Year Built: | 1995 |
| Study Area: | COMAREA143 | Effective Year Built: | 1995 |
| Neighbourhood: | 4300 | Lot Size (ft ²): | 18000 |
| Conditon: | AVERAGE | Corner: | 0 |
| Actual Zoning: | CB2 | Traffic: | MAJOR |
| Effective Zoning: | CB2 | Legal Description: | Plan: 1234567 Block: 1 Lot: 6 |

| Space Types | Gross Leasable Area (ft ²) | Market Rent/ft ² | Total |
|--------------------------------------|--|-----------------------------|----------|
| Apartment Area | 0 | \$0.00 | \$0 |
| Autoservice | 0 | \$0.00 | \$0 |
| Bank | 0 | \$0.00 | \$0 |
| Convenience Store | 0 | \$0.00 | \$0 |
| CRUs < 1,001 ft ² | 0 | \$0.00 | \$0 |
| CRUs 1,001 to 3,000 ft ² | 3,795 | \$16.75 | \$63,565 |
| CRUs 3,001 to 5,000 ft ² | 4,071 | \$14.25 | \$58,010 |
| CRUs 5,001 to 10,000 ft ² | 0 | \$0.00 | \$0 |
| CRUs > 10,001 ft ² | 0 | \$0.00 | \$0 |
| Drug Store | 0 | \$0.00 | \$0 |
| Theatre | 0 | \$0.00 | \$0 |
| Office | 0 | \$0.00 | \$0 |
| CRU - Restaurant | 5,300 | \$18.50 | \$98,048 |
| CRU - Restaurant Fast Food | 0 | \$0.00 | \$0 |
| CRU - Restaurant Good | 0 | \$0.00 | \$0 |
| CRU - Restaurant Pad | 0 | \$0.00 | \$0 |
| Storage/Warehouse Main | 0 | \$0.00 | \$0 |
| Bsmt Storage | 0 | \$0.00 | \$0 |
| Bsmt Non-Storage | 0 | \$0.00 | \$0 |
| Upper Non-Storage | 0 | \$0.00 | \$0 |
| Upper Apartment | 0 | \$0.00 | \$0 |
| Upper Storage/Mezz | 0 | \$0.00 | \$0 |

Total Gross Leasable Area (ft²): 13,166 Potential Gross Income \$219,622

| | | |
|--------------------------------|-------|------------------|
| Less: Vacancy Allowance | | |
| Cru | 8.0% | \$13,177 |
| Upper | 0.0% | \$0 |
| Basement | 20.0% | \$0 |
| Effective Gross Income | | \$206,445 |

| | | |
|-----------------------|------|---------|
| Less: Expenses | | |
| Structural Allowance | 2.0% | \$4,129 |

| | | | |
|--------------------------------|-----|------------------|---------|
| Less: Vacancy Shortfall | | | |
| Cru | 790 | \$11.00 | \$8,689 |
| Upper | 0 | \$11.00 | \$0 |
| Basement | 0 | \$0.00 | \$0 |
| Net Operating Income | | \$193,627 | |

| | | |
|-------------------------|--|--------------------|
| Stabilized Value | | |
| Capitalization Rate | | 6.50% |
| Value Subtotal | | \$2,978,874 |

| | | |
|---------------------------------|--|-------------|
| Other Value Adjustments | | |
| Additional Buildings | | \$7,995,826 |
| Additional deductions/additions | | |
| Excess Land or Surplus Land | | \$0 |

2020 Market Value Estimate (Rounded) \$10,974,500

| | | |
|---|--|--|
| COMMENTS | | |
| | | |
| | | |
| | | |
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Variables

Not all variables affect market value. Below is the list of variables that affect the assessment value for 2020.

| | |
|----------------------|-------------------|
| Condition | Size |
| Effective Year Built | Space Type |
| Location | Traffic Influence |
| Lot Location | |

The rates displayed on the Detail Report are determined based on one or more of the above variables. For example; the valuation rates will vary based on space type, lot location, condition, space type size, effective year built, traffic influence and location of the property. The capitalization rate is based on one or more of the following factors; a property's physical condition and location.

Condition

The overall property condition has been rated using the following categories, generally described as:

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.

Average:

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

Fair:

- below average maintenance;
- deferred maintenance requiring rehabilitation and/or replacement;
- discernible deterioration;
- reduced utility with signs of structural decay.

Poor:

- borderline derelict;
- far below average maintenance;
- major repairs and/or replacements are required.

Effective Year Built

The chronological age of a property adjusted to reflect an addition or significant renovation that extends the improvement's remaining economic life. The 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). Completed additions to existing improvements will alter the effective age of a property.

Location

Retail and Retail Plaza properties are stratified based on geographic areas and are described below.

- **Study Areas:** Retail and retail plaza properties are stratified into study areas. Each study area constitutes a geographic area. There are 39 distinct study areas. Detailed study area maps can be found at the end of the methodology guide.
- **Neighbourhoods:** are geographic areas delineated in the City's Neighbourhood Maps found at <http://maps.edmonton.ca>. Neighbourhoods do not directly impact the assessment values but typically neighbourhoods make up parts of the study areas as defined above.

Lot Location

Lot location specifies whether a parcel of land is located on an interior lot or a corner lot. Refer to Part I, Section 6.1(18) of the Edmonton Zoning Bylaw 12800 for further details regarding lot location.

- **Corner Lot:** Generally, a parcel of land located at the intersection of two public roadways or abutting a public roadway, other than lanes.
- **Interior Lot:** Interior lot is any parcel of land other than a corner lot.

Size

Size refers to the total gross building area, gross leasable area, size of floorplate, and number of stories.

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.

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

For the purposes of preparing retail property assessment, gross leasable area is calculated as follows:

| | |
|---------------------|-----------------------------------|
| Main floor | 95% of gross building area |
| Upper floors | 90% of gross building area |
| Basement | 90% of gross building area |

For the purposes of preparing retail plaza assessment, the gross leasable area as reported on the tenant roll form provided through the annual request for information (RFI) process is used.

Traffic Influence

Traffic influence is based on average annual weekday traffic volume counts as reported on the 2018 AAWDT Report: Average Annual Weekday Traffic Volumes Report. This report is accessible on the City website: edmonton.ca.

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

Space Types

Auto Service is an unfinished space designed for vehicles to enter the structure and generally there are large bay doors. They may contain service pits or lifts. Typically, it consists of automobile service bays, auto body repair and detailing, muffler, glass, oil, tire or mechanical repair services.

Apartment is a self-contained housing unit that occupies only part of a building.

Convenience Store or corner store, is a small store that stocks a range of everyday items such as toiletries, soft drinks and tobacco products. Convenience Store space is defined by having either built-in refrigeration units or improved electrical to allow for non-built-in refrigeration units.

Commercial Retail Units (CRUs) are finished spaces designed to offer utility to an array of commercial users. These units are typically located on the main floor with direct exterior or common area access. They have been stratified based on gross leasable area as follows:

| 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) |

Banks are space that has advanced security measures such as; reinforcement of walls, safes and electronic deterrents and other features to keep the space secure.

Drug Stores are specialized space for medical service and their construction may include secured areas for controlled pharmaceuticals, clinic and retail area.

Office is space that is utilized, designed or intended for 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 are valued as a CRU space for the purpose of valuation.

Restaurants are food serving establishments that contain dedicated food preparation, kitchen, and sitting areas. Restaurants generally have a higher level of finish than most CRU's, and have improved electrical, plumbing and venting. Restaurants have been stratified as follows:

- **Restaurants Average (Restaurants)** – typically have average quality finish.
- **Restaurants Good** – are generally full-service restaurants and generally have a higher level of finish. They are generally national tenants.
- **Restaurants Fast Food** – are generally self-service restaurants and generally have a higher level of finish. They include fast food franchises, which typically have drive-thrus.
- **Restaurant (Pad)** – Restaurants that are standalone; occupied by a single tenant.

Theatre space is dedicated for film viewing, projection and supporting retail.

Storage Space typically has minimal finish including limited mechanical with no wall finish, floor or ceiling finish and it does not typically offer utility for other uses.

- **Upper Storage** is storage space located on an upper floor, includes mezzanine space.
- **Mezzanine** is an intermediate floor between main floors of a building and usually smaller than the main floor. A mezzanine typically has a low ceiling and may project in the form of a balcony. Generally mezzanine level cannot be leased or sold separately from the unit.
- **Basement Storage** is storage space located below grade.

Upper Non-Storage is finished space located on an upper floor (excluding Apartment space). This space typically commands a lower rent than main floor retail space.

Basement Non-Storage is finished space located below grade. This space typically commands a lower rent than main floor retail space.

Warehouse is unfinished space located on the main floor that contains one or more bay doors, and is typically utilized for storage, light manufacturing or product distribution.

Land Lease is a lease for a specific portion of land subject to specified terms. On the Retail and Retail Plaza Assessment Detail Report, land leases are used exclusively for gas stations. The improvements are valued based on their depreciated cost to construct under service station equipment (SSE).

Other Value Adjustments

Adjustments may also be made for the following.

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

Associated Lots is a reduction to a primary improved property based upon a separate but related associated parcel(s). This adjustment is applied when all, or part, of the land from the associated parcel(s) is required to satisfy the operation of the primary property. The associated parcel(s) must be owned by the same individual/corporation as the primary improved property or have a lease in place with the primary improved property. The *Edmonton Zoning Bylaw No. 12800* outlines the requirements to satisfy the operations of the primary 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 (Shell Space Allowance) is an allowance provided for leasable space that is without dividing walls, floor coverings, ceiling or other finishes. The adjustment is based on a \$60 per square foot cost rate derived from the Marshall & Swift Manual. The construction allowance will be applied to the difference when the amount of unfinished leasable space is greater than the vacancy shortfall area applied (typical or chronic). If the amount of unfinished leasable space is less than the vacancy shortfall area, an adjustment for shell space will not be made.

Contamination Site contamination refers to a property that has been affected by environmental contamination which includes adverse conditions resulting from the release of hazardous substances into surface water, groundwater, or soil.

Excess Land on an improved parcel 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 parcel's primary highest and best use. Excess land may be separated from the larger parcel (subdivided) 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 2020 Commercial Land Assessment Methodology.***

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. ***For the 2020 assessment, a 50% discount to the excess land rate was applied.***

Service Station Equipment (SSE) service station equipment, including pumps, underground tanks, canopy structures, car wash structures and equipment. The SSE is valued using the cost approach. In addition, small free standing buildings may be on site, such as a service garage.

Other Definitions

Actual Zoning is set by the Edmonton Zoning Bylaw No. 12800 and regulates the use and development of a parcel. Edmonton Zoning Bylaw No. 12800 is available online at Edmonton.ca.

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 subsequently amended by Edmonton Zoning Bylaw 12800 (ie. legal nonconforming use).

Land Use Code defines the use of a property. The amount of a property subject to any specific Land Use will be expressed as a percentage (%). Land Uses may be used for administrative reasons and are not used in the valuation of Retail and Retail Plaza Inventory.

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.

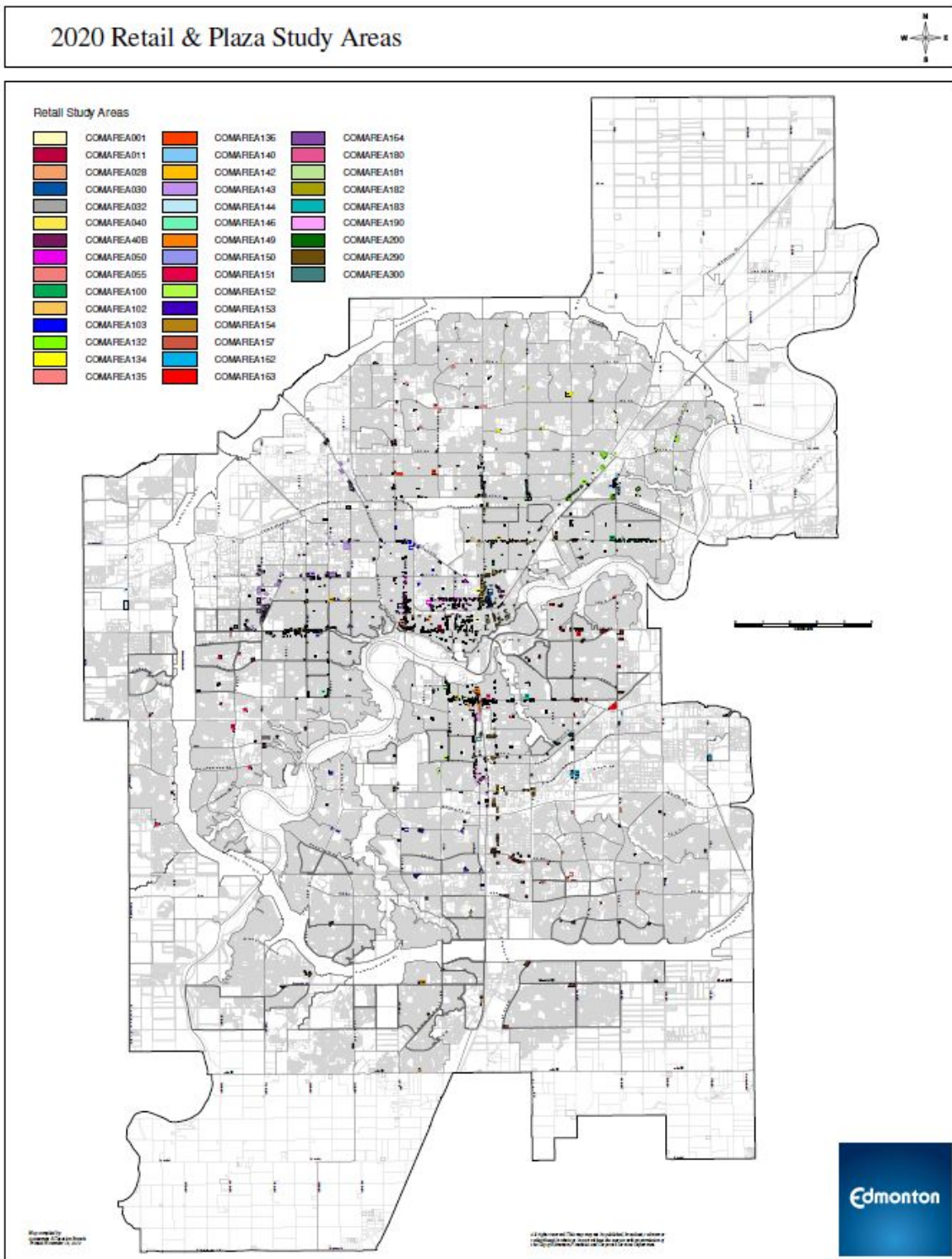
Type specifies whether the variable applies to the account, unit, site, or building.

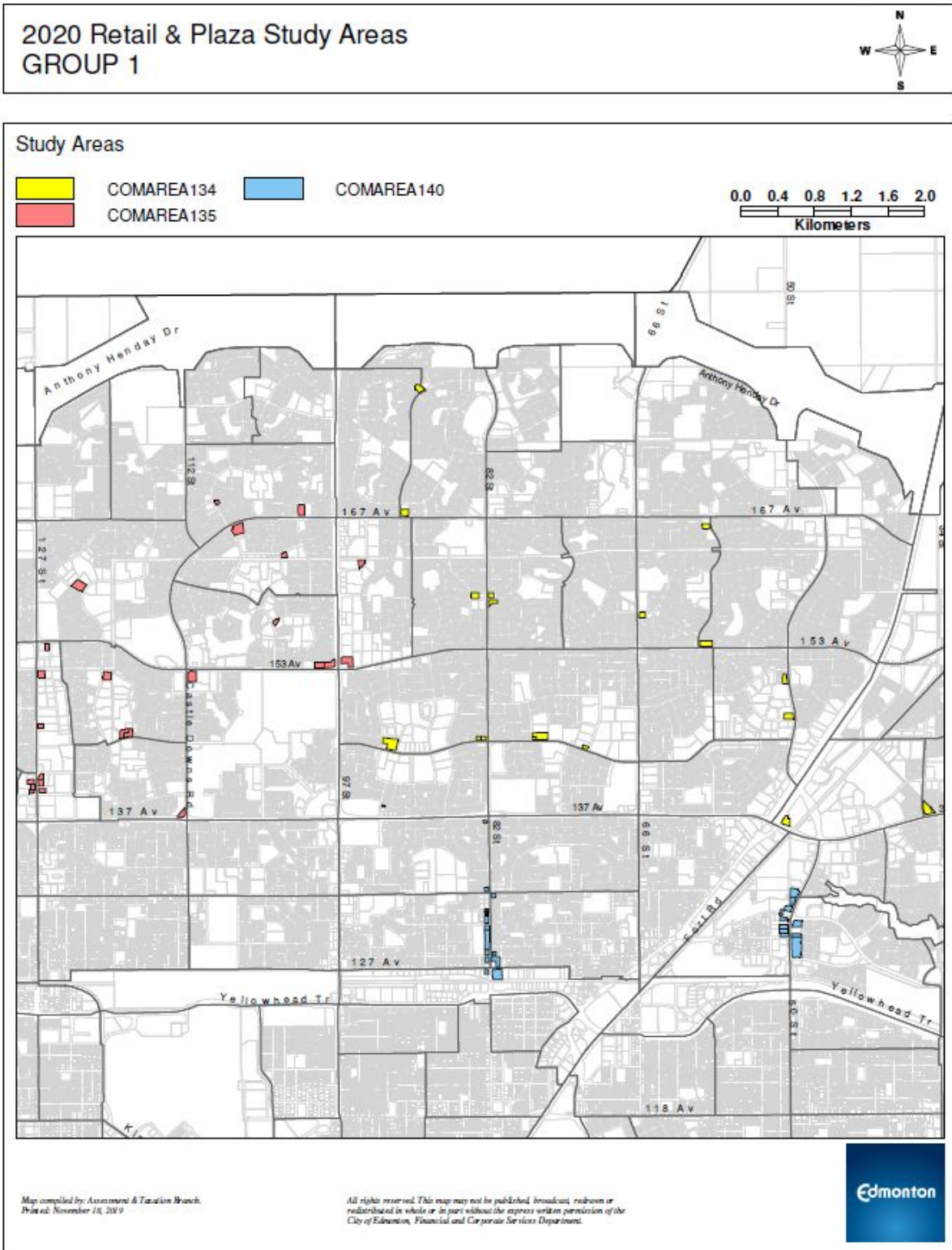
1. Account - An adjustment that is applied to the property on the account. The property on the account includes the parcel of land and the improvements.
2. Unit - An adjustment that is applied to a condominium unit.
3. Site - An adjustment that is applied to the land.
4. Building - An adjustment that is applied to the building.

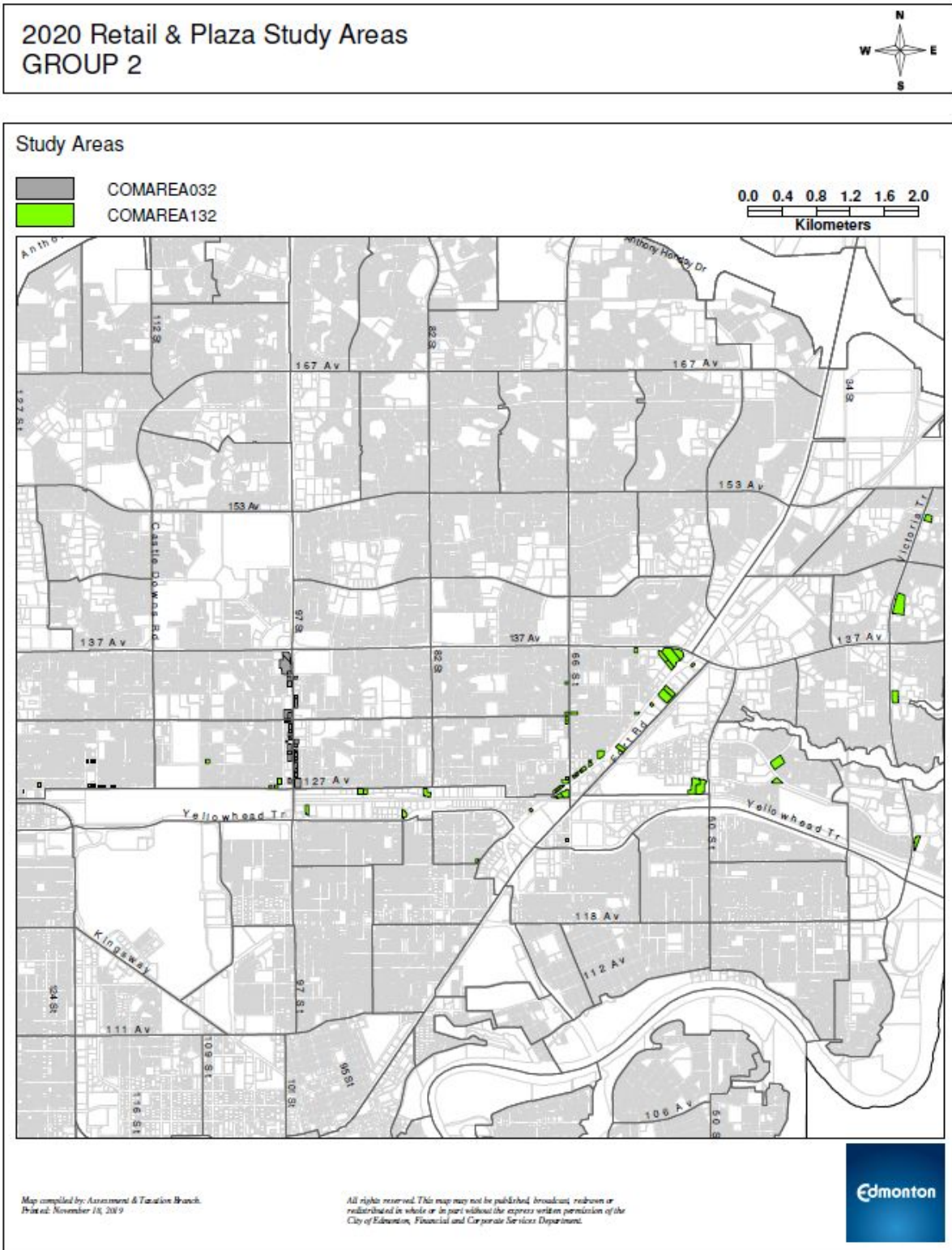
References

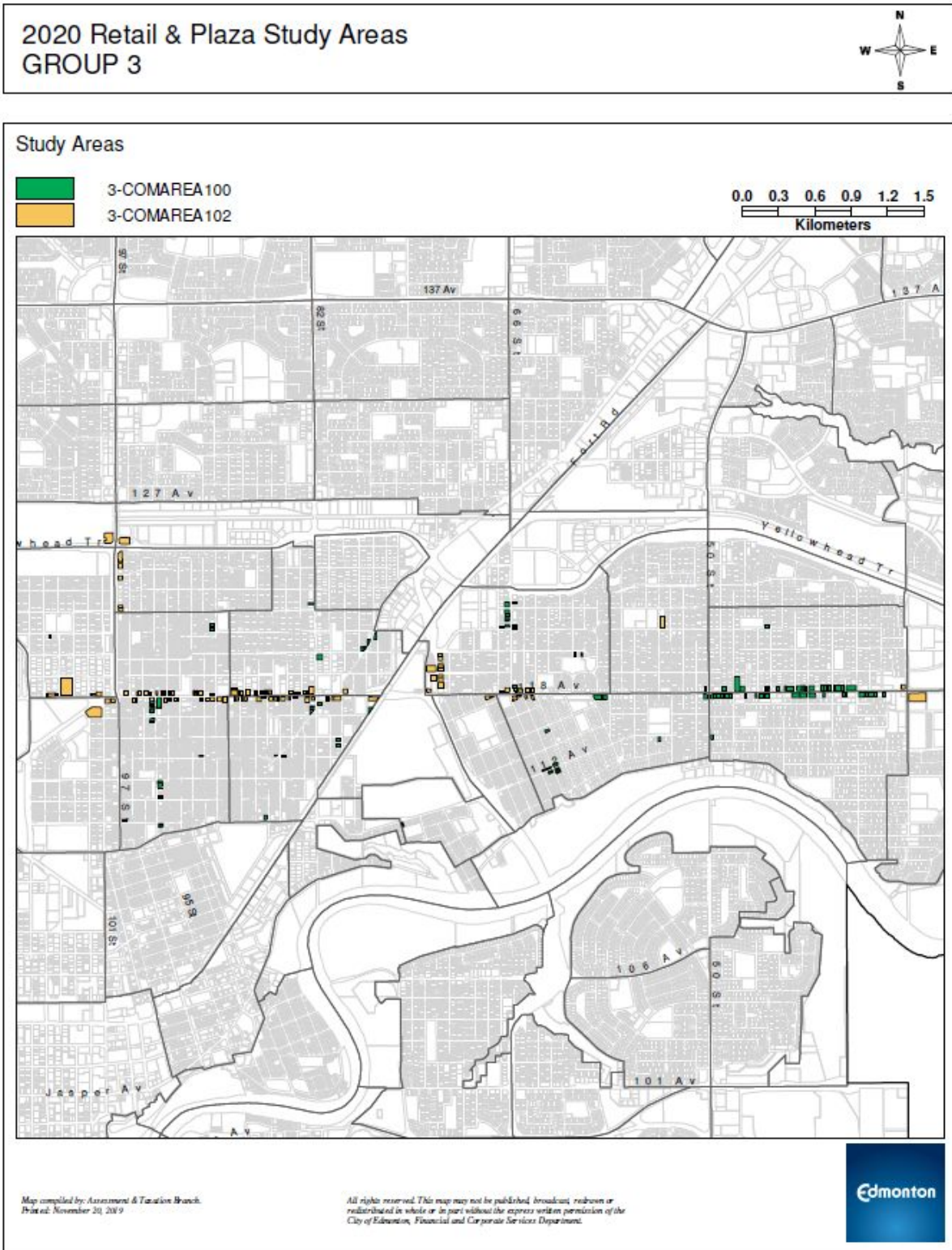
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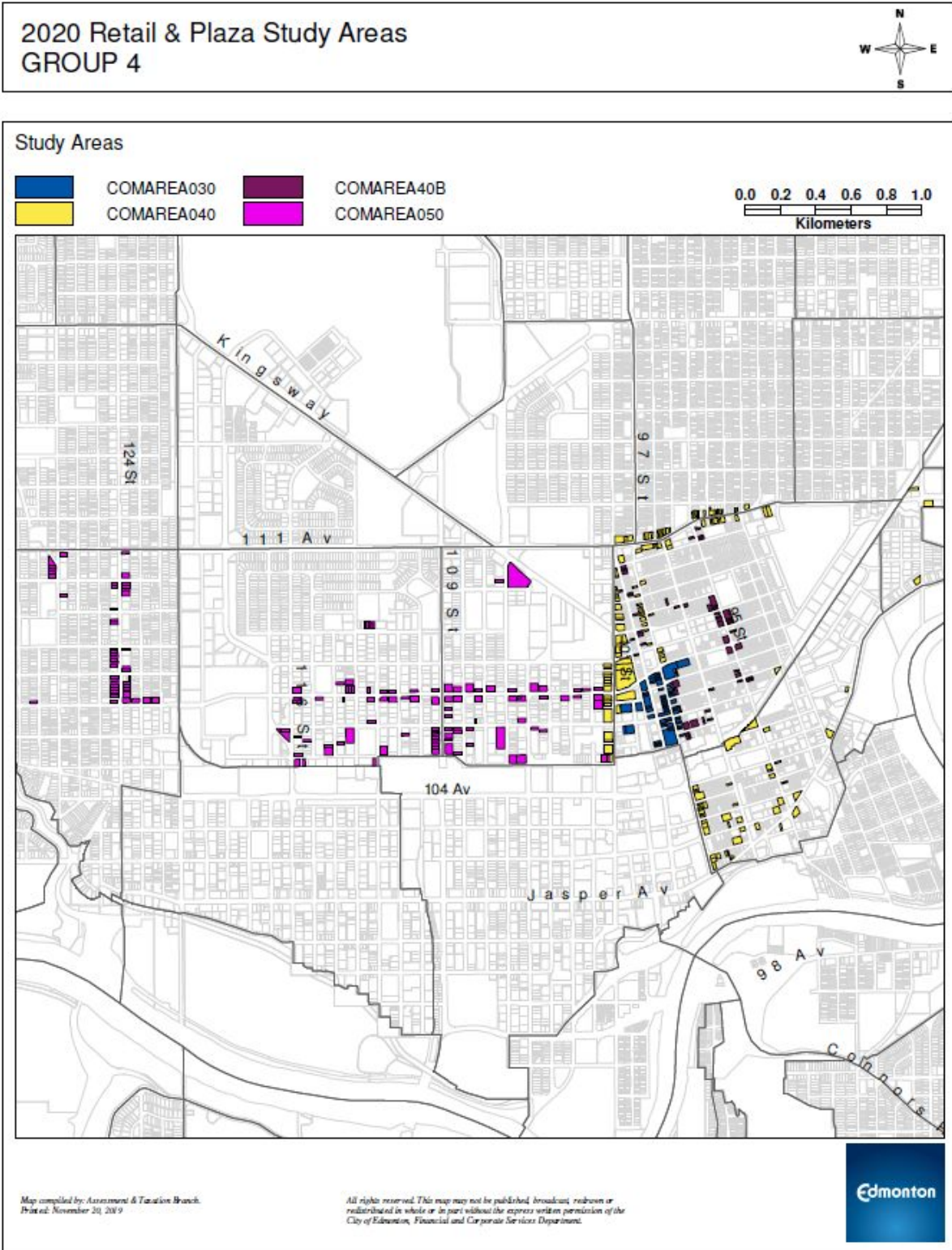
Study Area Maps

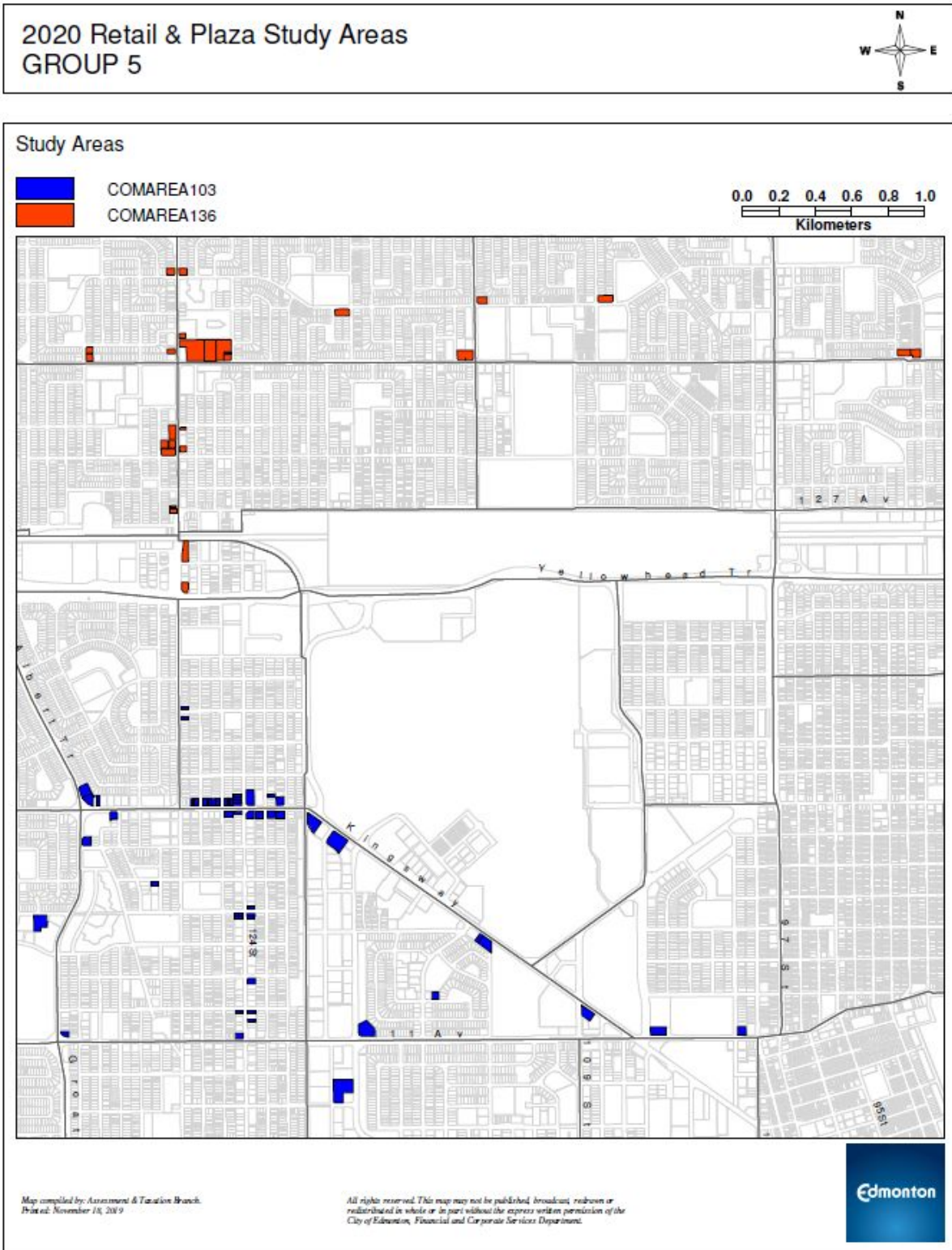


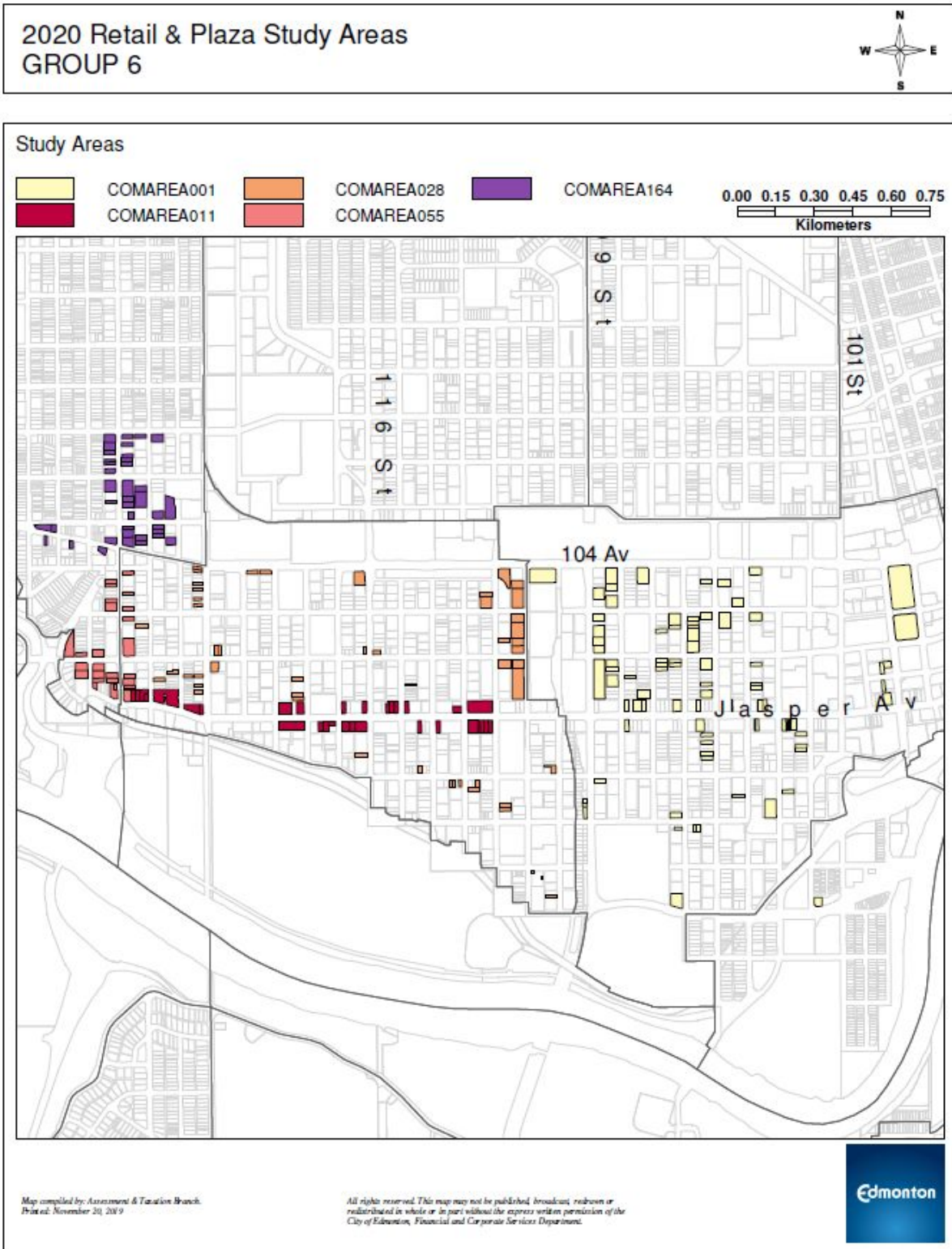


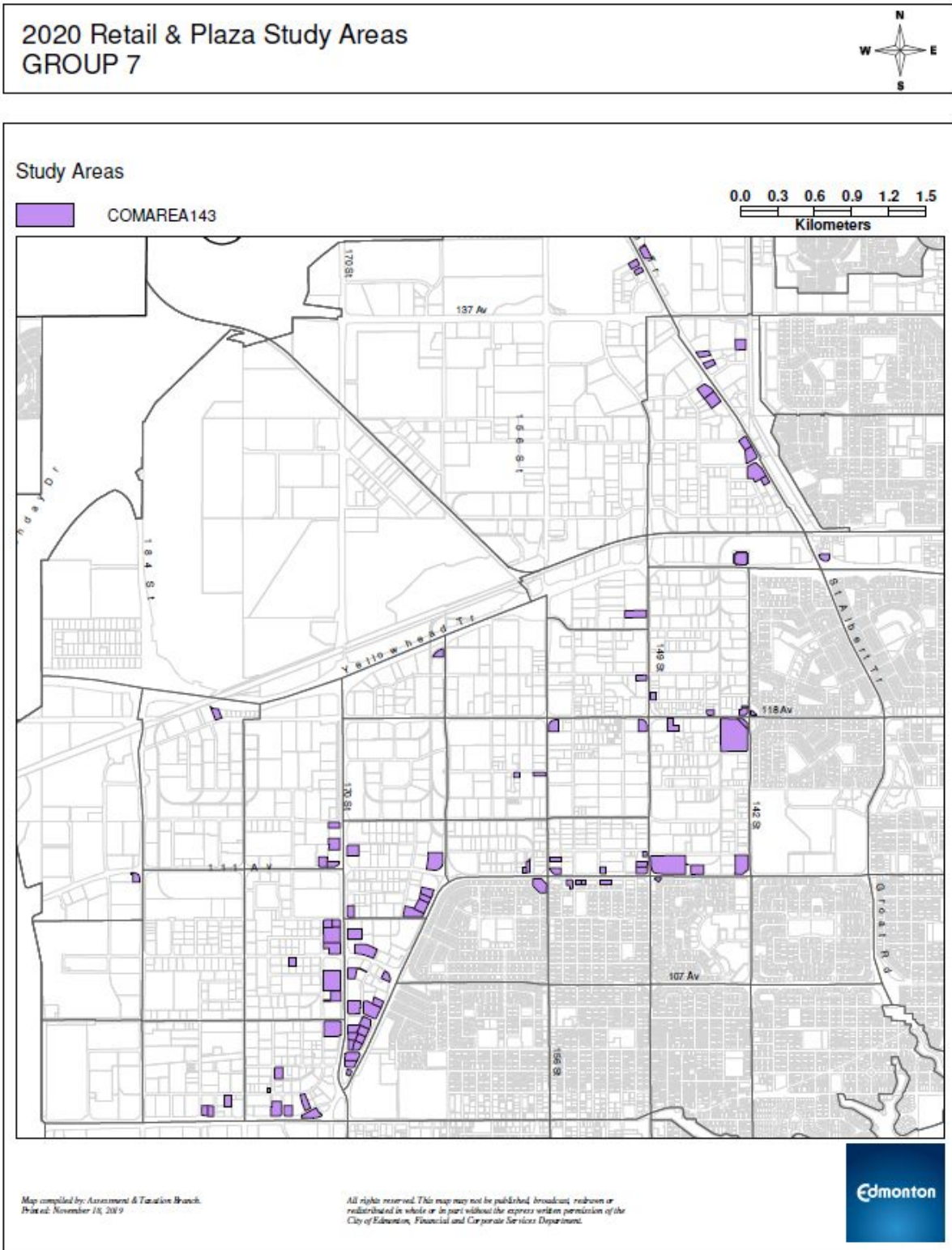


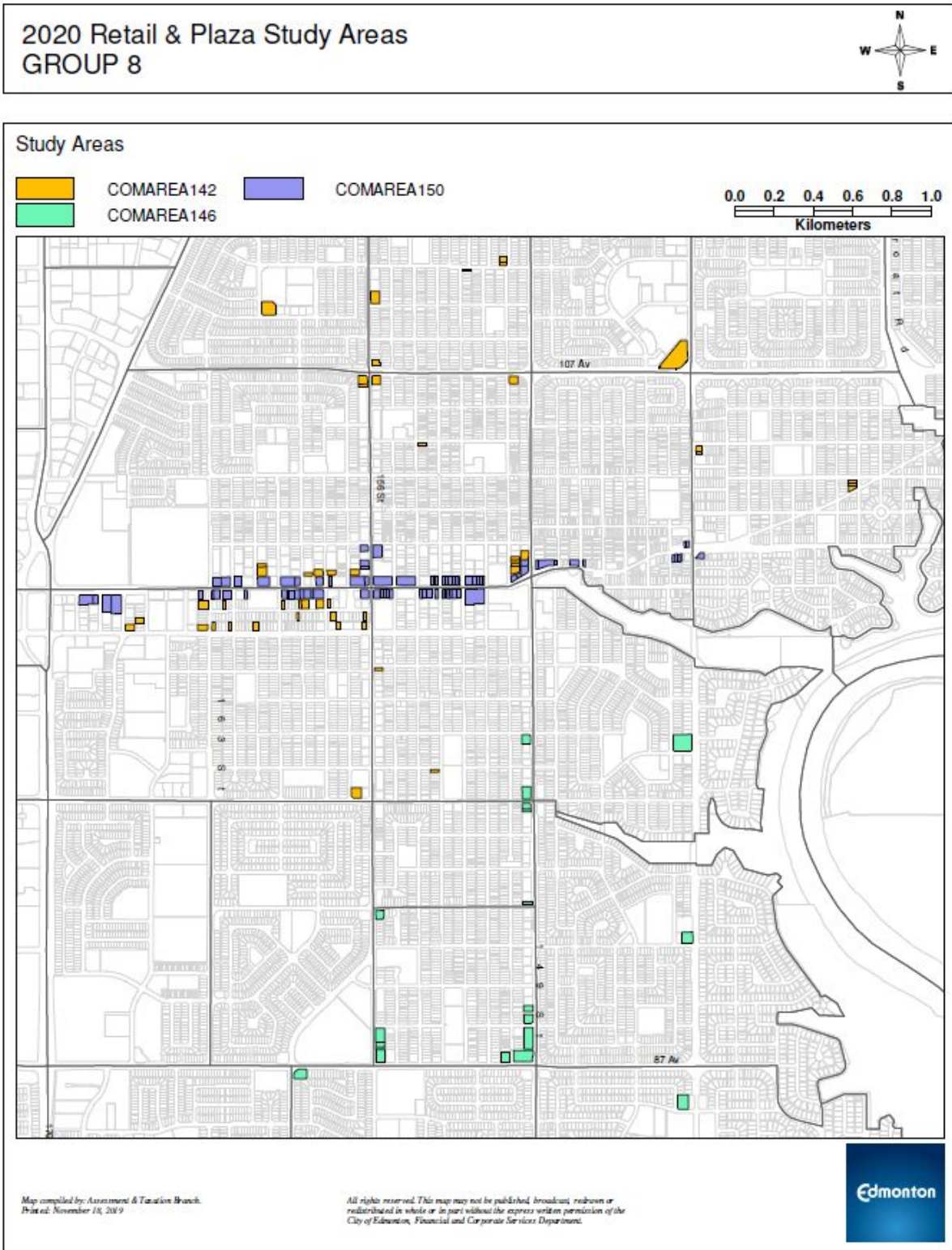


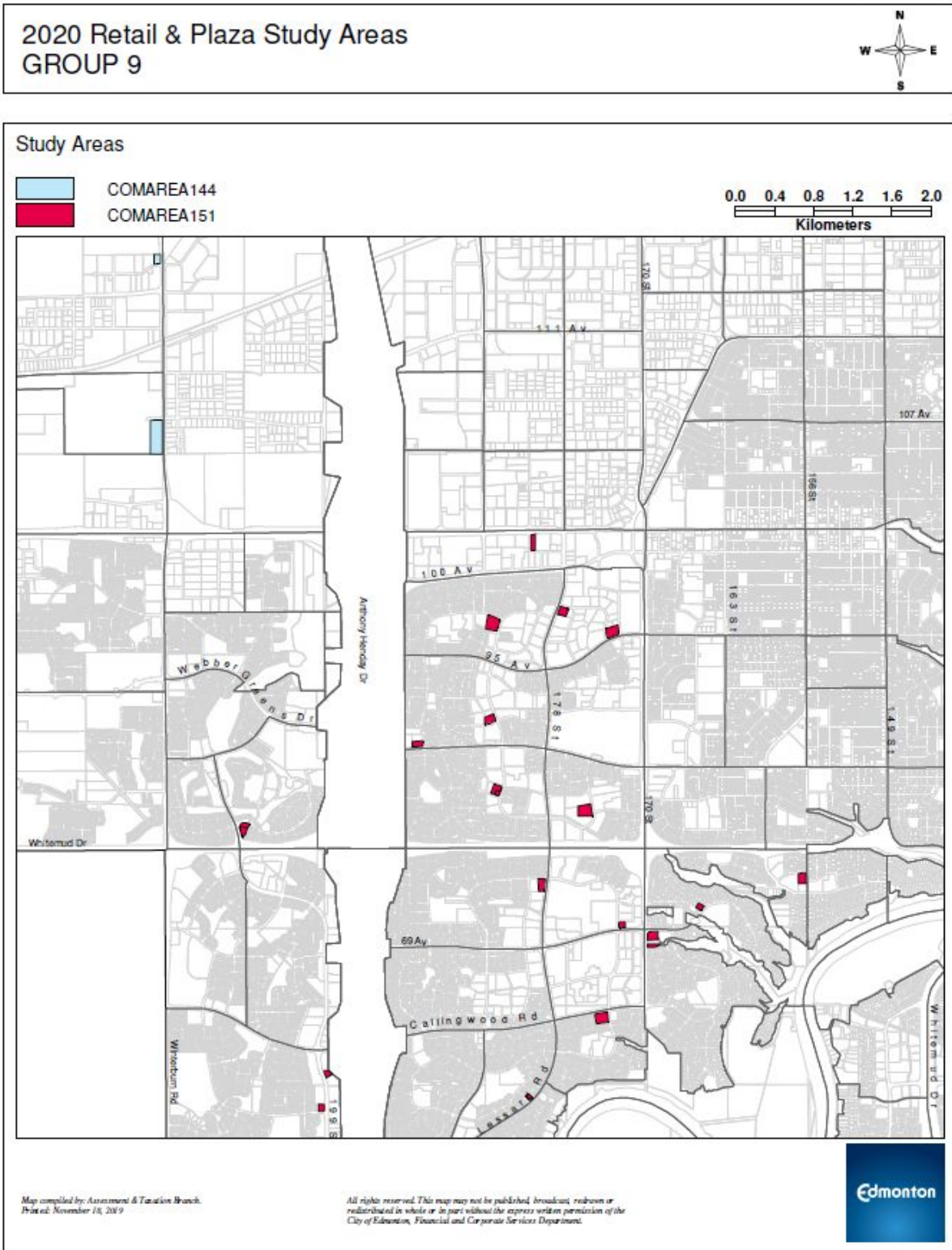


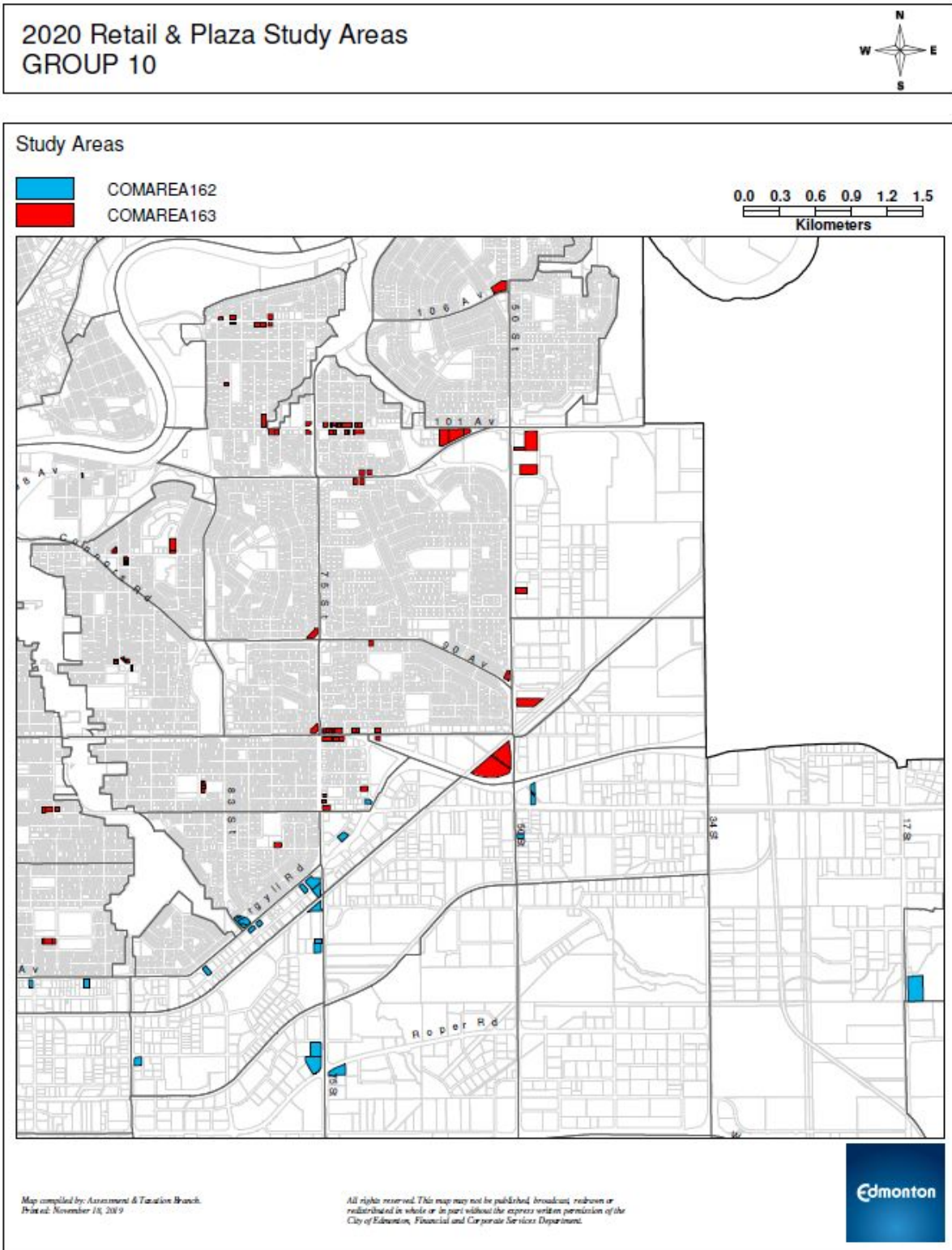


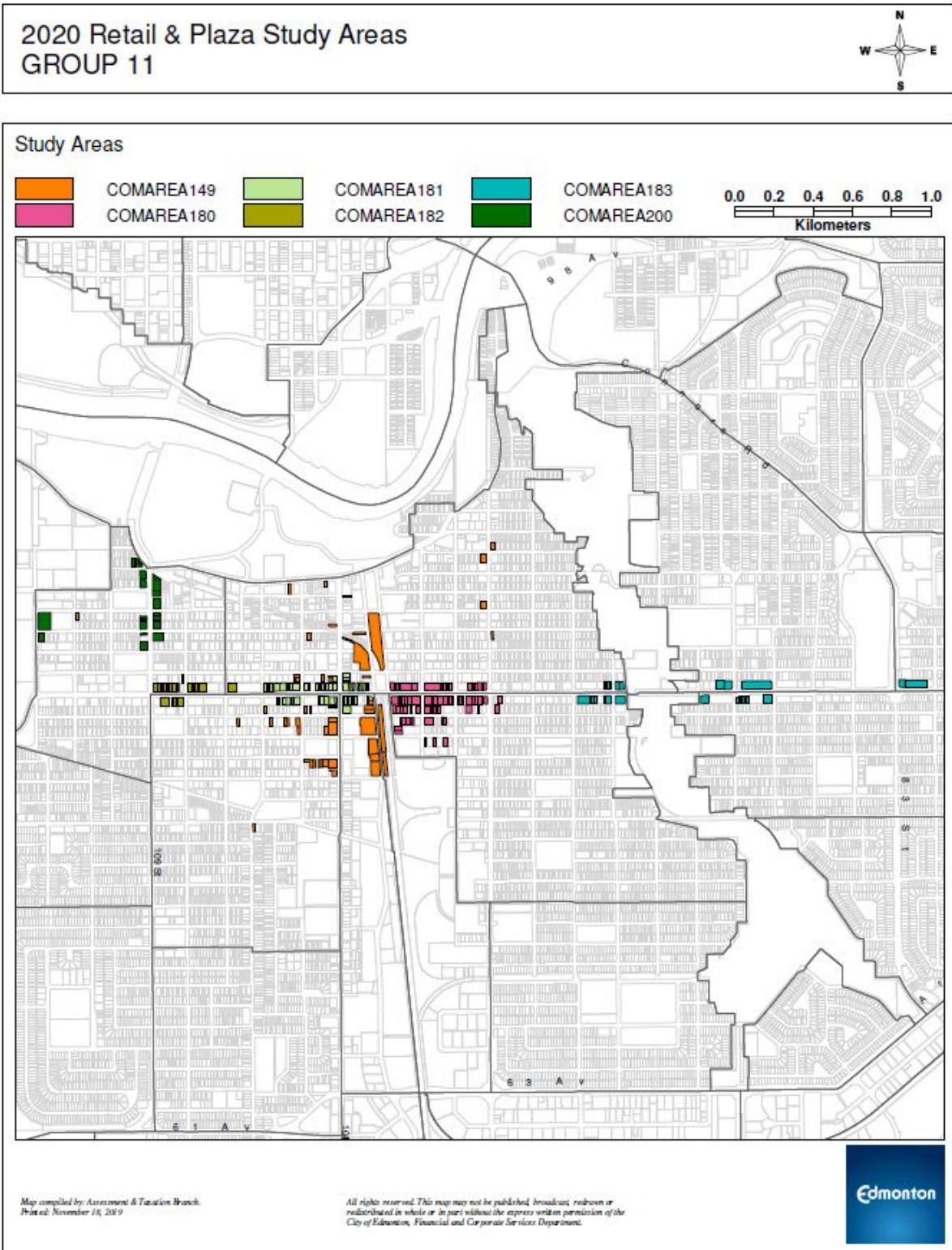


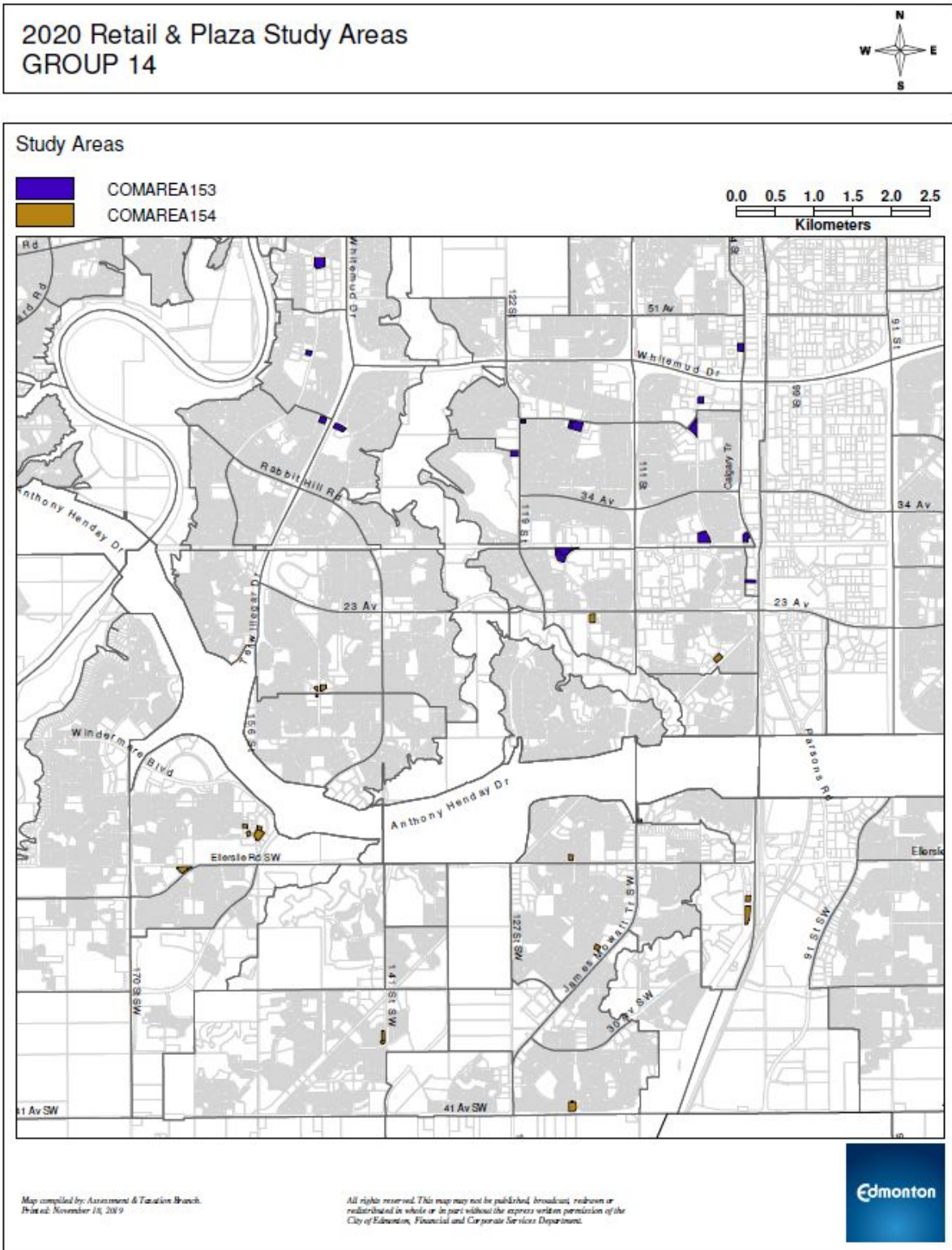












Time Adjustment Factors

| Time Adjustment Factor's | | | |
|--|------------|-------------|------------|
| 2020 | | | |
| RETAIL, RETAIL PLAZA AND SHOPPING CENTRES | | | |
| DATE | TAF | DATE | TAF |
| Jul-14 | 1.00 | Jan-17 | 1.00 |
| Aug-14 | 1.00 | Feb-17 | 1.00 |
| Sep-14 | 1.00 | Mar-17 | 1.00 |
| Oct-14 | 1.00 | Apr-17 | 1.00 |
| Nov-14 | 1.00 | May-17 | 1.00 |
| Dec-14 | 1.00 | Jun-17 | 1.00 |
| Jan-15 | 1.00 | Jul-17 | 1.00 |
| Feb-15 | 1.00 | Aug-17 | 1.00 |
| Mar-15 | 1.00 | Sep-17 | 1.00 |
| Apr-15 | 1.00 | Oct-17 | 1.00 |
| May-15 | 1.00 | Nov-17 | 1.00 |
| Jun-15 | 1.00 | Dec-17 | 1.00 |
| Jul-15 | 1.00 | Jan-18 | 1.00 |
| Aug-15 | 1.00 | Feb-18 | 1.00 |
| Sep-15 | 1.00 | Mar-18 | 1.00 |
| Oct-15 | 1.00 | Apr-18 | 1.00 |
| Nov-15 | 1.00 | May-18 | 1.00 |
| Dec-15 | 1.00 | Jun-18 | 1.00 |
| Jan-16 | 1.00 | Jul-18 | 1.00 |
| Feb-16 | 1.00 | Aug-18 | 1.00 |
| Mar-16 | 1.00 | Sep-18 | 1.00 |
| Apr-16 | 1.00 | Oct-18 | 1.00 |
| May-16 | 1.00 | Nov-18 | 1.00 |
| Jun-16 | 1.00 | Dec-18 | 1.00 |
| Jul-16 | 1.00 | Jan-19 | 1.00 |
| Aug-16 | 1.00 | Feb-19 | 1.00 |
| Sep-16 | 1.00 | Mar-19 | 1.00 |
| Oct-16 | 1.00 | Apr-19 | 1.00 |
| Nov-16 | 1.00 | May-19 | 1.00 |
| Dec-16 | 1.00 | Jun-19 | 1.00 |