

2019

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

Revised: February 21, 2019 (see revision history)

Edmonton



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Scope

This guide is an aid in explaining how Retail/Office condominium 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 the *Municipal Government Act* Revised Statutes of Alberta 2000 Chapter 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 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.

Commercial property assessments represent:

- an estimate of the value;
- of the fee simple estate in the property;
- as it existed on December 31, 2018;
- would have realized if it had been sold on July 1, 2018;
- on the open market and under typical market conditions;
- by a willing seller to a willing buyer.

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

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

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

Both *market value* and *property* along with additional terms are defined in the 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 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

Commercial Property Types

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

Approaches to Value

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

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 sales data to derive reliable market estimates.

Support for the Direct Sales approach comes from several reputable sources, for example:

This approach is usually the preferred approach for estimating values for residential and other property types with adequate sales. (IAAO, 2013, sec. 4.3).

The Direct Comparison approach provides the most credible indication of value for owner-occupied commercial and industrial properties, i.e., properties that are not purchased primarily for their income-producing characteristics. These types of properties are amenable to direct comparison

because similar properties are commonly bought and sold in the same market. (Appraisal Institute of Canada [AIC], 2010, p. 13.4).

Appraisers should rely on several sold properties as comparable sales. Three to five comparables are usually adequate, but a larger number improves confidence in the final estimate, increases the awareness of patterns of value, and stabilizes assessments over time. (UBC, 2009, p. 7.2).

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 used sales of Commercial Condominium properties occurring from July 1, 2013 to June 30, 2018 for 2019 valuation. Time adjustments are applied to sale prices to account for any market fluctuations based on the time trend occurring between the sale date and the legislated valuation date. Through the review of sales, the collective actions of buyers and sellers in the marketplace are analyzed to determine the contributory value of specific property characteristics that drive market value. Once these values have been determined through the mass appraisal process, they are applied to the inventory to derive the most probable selling price. Value estimates were calculated using multiple regression analysis, which replicates the forces of supply and demand in the marketplace.

See the appendix for the Time Adjustment Chart.

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

Zoning

Zoning regulates the use and development of a property and is set by the Edmonton Zoning Bylaw No. 12800.



s.6.123 zone: means a specific group of listed Uses and Development Regulations which regulate the Use and Development of land within specific geographic areas of the City...

Zoning Bylaw No. 12800, 2017, s. 6.123

See the appendix for the Zone Summary. For further information see City of Edmonton Zoning Bylaw No. 12800 available online at www.edmonton.ca.

The actual zoning of a property may affect the property's classification; however, not all property conforms to the zoning set out in the Zoning Bylaw. In these cases, an effective zoning is applied to

reflect the current use and development of the property. The effective zoning may differ from the actual zoning when the current use differs from the Zoning Bylaw (e.g., a legal nonconforming use).



643(1) If a development permit has been issued on or before the day on which a land use bylaw or a land use amendment bylaw comes into force in a municipality and the bylaw would make the development in respect of which the permit was issued a nonconforming use or nonconforming building, the development permit continues in effect in spite of the coming into force of the bylaw

MGA, s. 643(1)

In cases where a legal non-conforming use is discontinued for six (6) or more months, any future use must conform to the Zoning Bylaw.



643(2) A non-conforming use of land or a building may be continued but if that use is discontinued for a period of 6 consecutive months or more, any future use of the the land or building must conform with the land use bylaw then in effect.

MGA, s. 643(2)

Sample Assessment Detail Report

Property Assessment Detail Report Assessment and Taxation



Account **123456789**

Report Date	December 20, 2018
2019 Assessed Value	\$350,000
Date of Issue	January 2, 2019
Property Address	12345 Street
Legal Description	Plan: Sample Legal
Neighbourhood	Sample Neighbourhood
Assessment Class	NON-RESIDENTIAL
Land Use	100% Office in condominium complex
Zoning	RMU - Residential Mixed Use District
Effective Zoning	CB1 - Low Intensity Business District
Taxable Status	January 1 - December 31, 2019; FULLY TAXABLE
Unit of Measurement	IMPERIAL (feet, square feet)

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Factors Used to Calculate Your 2019 Assessed Value

VARIABLE	FACTOR	MARKET VALUE APPROACH		DIRECT SALES
		TYPE		
Location Downtown	1	Account		
Traffic	MODERATE	Account		
Unit Finish	ORIGINAL	Unit - 1		
Total Main Floor Sales Area	1,001	Building - 1		
Year Built	2004	Building - 1		
Total Building Value	350000	Building		

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Visit myproperty.edmonton.ca • email assessment@edmonton.ca • call 311 (780-442-5311)

Variables

Not all variables affect market value. Below is the list of variables that affect the assessment value for 2019.

Condition	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.

Year Built is the year the property was constructed also known as the chronological age of a property.

Location: commercial condominiums are stratified based on geographic areas referred to as study areas, market areas, regions and/or districts. These regions 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 condominium plan registered with the land title office.

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

Size or net area is obtained from the registered condominium plan. In addition to registered size, an owner might construct a mezzanine level which is included into the assessment as a floor variable. 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.
- **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:** Typically bare minimum finish including limited mechanical with no wall finish, floor or ceiling finish and it does not typically offer utility for other uses.
- **Common area:** Typically a registered condominium unit that does not transfer. 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 2016 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 No. 12800 and regulates the use and development of a parcel. Edmonton Zoning Bylaw No.12800 is available online at Edmonton.ca.

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

Land Use 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 Commercial Condominium Inventory. Below are a list of Land Uses for the Commercial Condominium Inventory.

Land Use	Land Use
Accessory structure in residential condominium complex	Lowrise condominium
Car wash without gas station	Non-residential bare land condominium (land and building)
Common area in non-residential condominium complex	Non-residential condominium parking stall
Common area in residential condominium complex	Office in condominium complex
Free-standing restaurant/bar	One-storey office building

Gas station with car wash	Paved/fenced parking lot for non-residential use
Gas station without car wash	Retail condominium
Heated parking structure	Retail in recreation centre
Highrise condominium	Warehouse condominium

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.
- **Tandem Parking:** refers to the placement of one parking space behind another parking space, such that only one parking space has unobstructed access to a driveway, road, alley, etc. For the 2019 assessment, these stalls are assessed as a single stall.

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.

Methods to Adjust Comparables

There are two types of techniques for reconciliation: **quantitative** and **qualitative**.

Quantitative Adjustments

Each characteristic of a property can be measured or quantified by a mathematical expression and adjusted for.

Several techniques are available to quantify adjustments to the sale prices of comparable properties: data analysis techniques (including paired data analysis, grouped data analysis, and secondary data analysis, statistical analysis, graphic analysis... (AIC, 2010, p. 14.2).

*In the direct comparison approach, the best comparables are those sales that require the least **absolute** adjustment. (AIC, 1995, p. 245).*

Quantitative adjustments involve adjusting a known value (sale price for example) by adding or subtracting an amount that a given characteristic adds to or subtracts from that value. A

quantitative adjustment should be made for each characteristic that differs between the subject property and the comparable property.

Due to the legislative requirement to use mass appraisal, the City has used statistical analysis to determine annual assessments.

“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.

MRAT s.31(a)

The City is not required to disclose the coefficients. In the absence of quantitative adjustments, an alternative technique is qualitative analysis.

Qualitative Analysis

Each comparable property is compared with the subject property on an overall basis. In a qualitative analysis, comparable properties are identified as inferior, similar, or superior overall to the subject property in order to bracket the probable value range of the subject property.

When a sale property is considered to offer important market evidence but finding the means to make quantitative adjustments is lacking, the appraiser may turn to other major direct comparison techniques, qualitative analysis. (AIC, 2005, p. 19.10).

Qualitative analysis recognizes ... the difficulty in expressing adjustments with mathematical precision. (AIC, 2010, p. 14.6).

...reliable results can usually be obtained by bracketing the subject between comparables that are superior and inferior to it. (AIC, 2010, p. 14.7).

If one or two comparable properties require fewer total adjustments than the other comparables, an appraiser may attribute greater accuracy and give more weight to the value indications obtained from these comparables, particularly if the magnitude of the adjustments is approximately the same. (AIC, 2010, p. 13.16).

Revision History

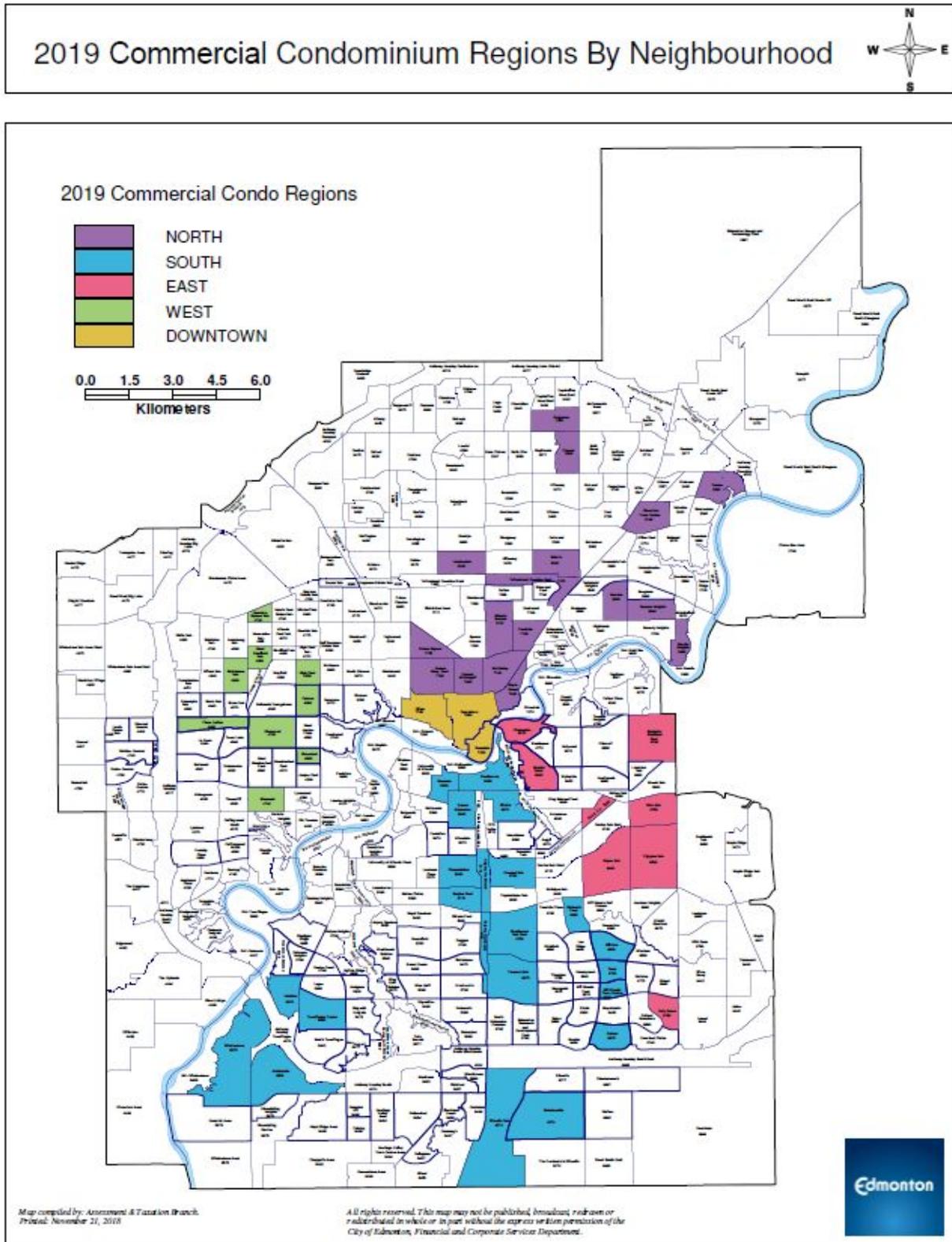
February 21, 2019 - removed Provincial Quality Standards section

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Map: Condo Regions by Neighbourhood



Time Adjustment Factors



Time Adjustment Factor's 2019			
RETAIL AND OFFICE CONDOMINIUMS			
DATE	TAF	DATE	TAF
Jul-13	1.0770	Jan-16	1.0000
Aug-13	1.0740	Feb-16	1.0000
Sep-13	1.0710	Mar-16	1.0000
Oct-13	1.0680	Apr-16	1.0000
Nov-13	1.0660	May-16	1.0000
Dec-13	1.0630	Jun-16	1.0000
Jan-14	1.0600	Jul-16	1.0000
Feb-14	1.0570	Aug-16	1.0000
Mar-14	1.0540	Sep-16	1.0000
Apr-14	1.0520	Oct-16	1.0000
May-14	1.0490	Nov-16	1.0000
Jun-14	1.0460	Dec-16	1.0000
Jul-14	1.0430	Jan-17	1.0000
Aug-14	1.0400	Feb-17	1.0000
Sep-14	1.0380	Mar-17	1.0000
Oct-14	1.0350	Apr-17	1.0000
Nov-14	1.0320	May-17	1.0000
Dec-14	1.0300	Jun-17	1.0000
Jan-15	1.0270	Jul-17	1.0000
Feb-15	1.0240	Aug-17	1.0000
Mar-15	1.0210	Sep-17	1.0000
Apr-15	1.0190	Oct-17	1.0000
May-15	1.0160	Nov-17	1.0000
Jun-15	1.0130	Dec-17	1.0000
Jul-15	1.0110	Jan-18	1.0000
Aug-15	1.0080	Feb-18	1.0000
Sep-15	1.0050	Mar-18	1.0000
Oct-15	1.0030	Apr-18	1.0000
Nov-15	1.0000	May-18	1.0000
Dec-15	1.0000	Jun-18	1.0000