2019 ASSESSMENT METHODOLOGY

COMMERCIAL - NEIGHBOURHOOD, POWER AND BOX RETAIL

A summary of the methods used by the City of Edmonton in determining the value of nieghbourhood shopping centres, power centres and box retail properties in Edmonton for assessment purposes.

edmonton.ca/assessment

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Scope

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

This icon signifies when legislation is quoted.

Introduction

Property assessments in the City of Edmonton are prepared in accordance with the requirements of the 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
- from a willing seller to a willing buyer

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

> *"Fee simple interest [is] absolute ownership unencumbered by any other interest or estate…leased fee interest [is] the ownership interest held by the lessor, which includes the right to the contract rent specified in the lease plus the reversionary right when the lease expires….leasehold interest [is] the interest held by the lessee (the tenant or renter) through a lease conveying the rights of use and occupancy for a stated term under certain conditions."*
>
> Appraisal Institute of Canada, ***The Appraisal of Real Estate Third Canadian Edition***, Vancouver, Canada, 2010, page 6.4.

Both *market value* and *property* along with additional terms are defined in the *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."*
>
> *The International Association of Assessing Officers, Property Appraisal and Assessment Administration, Chicago, Illinois, 1990, pg.88-89.*

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

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

Valuation Model

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

*s.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

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. 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.

***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.*

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

Office buildings are designed for general commercial occupancy where the majority of the space type is office use. Some of the typical uses include the offices of lawyers, accountants, engineers, architects, real estate and insurance firms, health and government services, corporate uses, administration and similar office support services.

Downtown Office Buildings are office buildings that are located in the downtown districts. See 2019 Downtown Office Assessment Methodology.

Suburban Office Buildings are the office buildings that are located in suburban districts. See 2019 Suburban Office Assessment Methodology.

Retail properties are typically unanchored commonly freestanding buildings. Multiple freestanding buildings can be found on the same property. This category also includes street-front retail units that

may be abutting other retail properties, which are typically pedestrian-oriented. In conjunction with retail, various uses on other floors can be found, such as residential and/or office space. Street parking is predominant in these retail properties. Does not include properties that fall under the Retail Plaza category.

Retail Plazas are stratified into three types of unanchored properties:

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

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

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

Additional details are available in the 2019 Downtown Office, 2019 Suburban Office and 2019 Retail and Retail Plaza Assessment Methodology guides, which are provided online at Edmonton.ca.

Approaches to Value

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

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.

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 financial information provided by owners during the annual Request for Information (RFI) process also supports the use of the income approach.

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

- A completed Commercial Tenant Roll Form including information about the space type (office, retail, warehouse, storage), tenant location, lease term, lease rate, operating expenses, tenant inducements, improvements, escalations 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 attributes of income producing properties and their income. The City of Edmonton uses **triple net rent** in its Income model. For 2019, income information from July 1, 2013 to June 30, 2018 was analyzed. The resulting model was then applied to the physical characteristics and attributes of every shopping centre 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 2019 valuation of Shopping Centres - Neighbourhood, Power and Box Retail properties, sales occurring from July 1, 2013 to June 30, 2018 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 (usually in dollars per square foot of leased area) after adjustments have been made accounting for free rent periods, plus the present value of tenant improvement allowances and other inducements such as free parking.

Lease types include 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 to the City of Edmonton through the RFI process, for 2019 valuation, there were no types of tenant inducements that were found to be typical in the marketplace for Neighbourhood, Power Centre and Box Retail properties. Therefore, no adjustments for tenant inducements 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.

Vacancy Allowance is a deduction from the potential gross income for typical vacancy and collection losses, assuming current market conditions and typical management. Vacancy losses are best described as an allowance for vacant space. Collection losses are considered unpaid rents that the landlord is

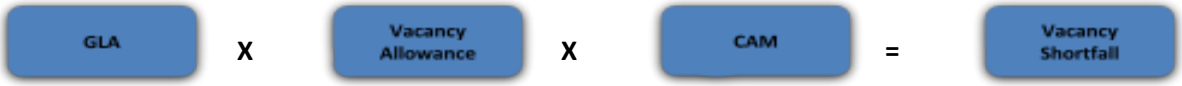
unlikely to recover. These allowances are usually expressed as a percentage of potential gross income. Variations in vacancy allowance (such as chronic vacancy) can occur if vacancy is greater than 10% (5% for Open Air Shopping Centre CRU spaces) for at least 3 consecutive years immediately preceding the valuation date. An allowance reflecting the stabilized chronic vacancy (See chart below) is applied on a per building. Note: the same unit must be vacant for 3 consecutive years and must be actively marketed. Storage space is not included in the vacancy allowance calculation.

Open Air Shopping Centre CRU Spaces			Suburban Office	
Actual Vacancy (over three years)	Stabilized Vacancy		Actual Vacancy (over three years)	Stabilized Vacancy
< 5%	2.5%		----------	----------
≥5% and < 10%	5%		< 10%	5%
≥ 10% to < 20%	10%		≥ 10% to < 20%	10%
≥ 20% to < 30%	15%		≥ 20% to < 30%	15%
≥ 30% to < 50%	20%		≥ 30% to < 50%	20%
≥ 50% to < 75%	25%		≥ 50% to < 75%	25%
≥ 75% to < 100%	30%		≥ 75% to < 100%	30%

The vacancy allowance of anchors in the Open Air Anchored Shopping Centre is 2% .

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

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.



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.

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

Overall Capitalization Rate (Cap Rate) 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. For the purposes of the 2019 assessment, the Capitalization Rate is based upon the investment classification.

Sample Assessment Detail Report

Assessment Detail Report

2019 SHOPPING CENTRE VALUATION SUMMARY

Roll Number:	1234567			Valuation Date:	July 1, 2018
Name:	Sample Building			Property Type:	Open Air Anchored
Address:	Sample Avenue			Condition:	Average
Study Area:	SAMPLE1			Legal Description:	Plan: 123456 Block: 78 Lot: 9
Lot Size (ft²):	123,456			Investment Class:	A
Effective Year Built:	2019	Effective Zoning:	CB2	**Property Assessment:**	**$22,378,000**
Actual Year Built:	2019	Actual Zoning:	CB2		

Space Types		Gross Leasable Area (ft²)	Market Rent /ft²	Total
Anchor Tenant 1	Eff. Year Built: 1998	80,000	$12.50	$1,000,000
Anchor Tenant 2	Eff. Year Built:	0	$0.00	$0
CRU - Grocery Store	Eff. Year Built:	0	$0.00	$0
CRU - Drug Store		0	$0.00	$0
CRU - Junior Anchor 10,001 to 20,000 ft²		0	$0.00	$0
CRU - Junior Anchor 20,001 ft² to 59,999		0	$0.00	$0
CRUs <1,000 ft²		0	$0.00	$0
CRUs 1,001 to 3,000 ft²		2,500	$28.00	$70,000
CRUs 3,001 to 5,000 ft²		0	$0.00	$0
CRUs 5,001 to 10,000 ft²		0	$0.00	$0
CRU - Restaurants		0	$0.00	$0
CRU - Restaurants Good/Fast Food		0	$0.00	$0
CRU - Banks		0	$0.00	$0
CRU - Other		0	$0.00	$0
CRU - Other 2		0	$0.00	$0
CRU - Auto Service		0	$0.00	$0
CRU - Theatre		0	$0.00	$0
CRU - Library		0	$0.00	$0
Office Space		1,100	$12.00	$13,200
Storage		1,500	$1.00	$1,500
Land Lease			$90,000.00	$90,000
Parking Stall Count:	100		$100.00	$120,000
	Total Gross Leasable Area (ft²):	**85,100**		
			Potential Gross Income	**$1,294,700**

ANCHOR GLA x MARKET RENT = ANCHOR PGI
EXAMPLE: 80,000 SQFT x $12.50 = $1,000,000

CRU GLA x MARKET RENT = CRU PGI
EXAMPLE: 2,500 SQFT x $28.00 = $70,000

OFFICE GLA x MARKET RENT = OFFICE PGI
EXAMPLE: 1,100 SQFT x $12.00 = $13,200

STORAGE GLA x MARKET RENT = STORAGE PGI
EXAMPLE: 1,500 SQFT x $1.00 = $1,500

LAND LEASE MARKET RENT = LAND LEASE PGI
EXAMPLE: $90,000 PER ANNUM

(PARKING STALLS x MARKET RENT PER MONTH) x 12 = PARKING PGI
EXAMPLE: (100 STALLS x $100.00) x 12 = $120,000

ANCHOR PGI + CRU PGI + OFFICE PGI + STORAGE PGI + LAND LEASE PGI + PARKING PGI = TOTAL PGI
EXAMPLE: $1,000,000 + $70,000 + $13,200 + $1,500 + $90,000 + $120,000 = $1,294,700

Less: Vacancy Allowance

Anchors	2.0%	$20,000
CRU	2.5%	$1,750
Office	5.0%	$660
	Effective Gross Income	**$1,272,290**

ANCHOR PGI x TYPICAL VACANCY RATE
EXAMPLE: $1,000,000 x 0.02 = $20,000
CRU PGI x TYPICAL VACANCY RATE
EXAMPLE: $70,000 x 0.025 = $1,750
OFFICE PGI x TYPICAL VACANCY RATE
EXAMPLE: $13,200 x 0.05 = $660

TOTAL PGI - STABILIZED VACANCY LOSS = EGI
EXAMPLE: $1,294,700 - ($20,000+$1,750+$660) = $1,272,290

Less: Expenses

Structural Allowance		2.0%	$25,446
Less: Vacancy Shortfall			
Anchors	1,600	$9.00	$14,400
CRU	63	$15.00	$938
Office	55	$13.00	$715
		Net Operating Income	**$1,230,792**

EGI x 2.0% = STRUCTURAL ALLOWANCE
EXAMPLE: $1,272,290 x 0.02 = $25,446

(TOTAL ANCHOR GLA x TYPICAL VACANCY RATE) x TYPICAL VACANCY SHORTFALL = ANCHOR VACANCY SHORTFALL
EXAMPLE: (80,000 SQFT x 0.02) x $9.00 = $14,400
(TOTAL CRU GLA x TYPICAL VACANCY RATE) x TYPICAL VACANCY SHORTFALL = CRU VACANCY SHORTFALL
EXAMPLE: (2,500 SQFT x 0.025) x $15.00 = $938
(TOTAL OFFICE GLA x TYPICAL VACANCY RATE) x TYPICAL VACANCY SHORTFALL = OFFICE VACANCY SHORTFALL
EXAMPLE: (1,100 SQFT x 0.05) x $13.00 = $715

EGI - STRUCTURAL ALLOWANCE - VACANCY SHORTFALL = NOI
EXAMPLE: $1,272,290 - $25,446 - ($14,400+$938+$715) = $1,230,792

Stabilized Value

Capitalization Rate		5.50%
	Value Subtotal	**$22,378,031**

MARKET VALUE = NOI / CAP RATE
EXAMPLE: $1,230,792 / 0.055 = $22,378,031

Other Value Adjustments

Additional Building	
Associated Lots	
Building Under Construction	
Construction Allowance	
Contamination	
Excess Land / Surplus Land	
Parking Adjustment	
Road Allowance	
Service Station Equipment (SSE)	

COMMENTS	**2019 Market Value Estimate (Rounded)**	**$22,378,000**

FINAL MARKET VALUE ESTIMATE UTILIZING THE INCOME APPROACH
(Rounded down to the nearest 500)

Variables

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

Investment Classification	Location
Condition	Size
Effective Year Built	Space Type

Investment Classification

Investment classification is based on the following criteria:

Class A

- Part of a development that includes one or more anchor(s) or grocery store
- Market rents for CRU 1,001-3,000 square foot space type are typically $30 per square foot or more
- Attract premier, prestigious and financially healthy tenants
- Located in new and/or expanding areas
- Typical effective age is 1998 and newer

Class B

- Part of a development that includes one or more anchor(s) or grocery store
- Market rents for CRU 1,001-3,000 square foot space type are typically $22-$32 per square foot
- Compete for a wide range of quality tenants
- Located in proximity to fully-developed areas
- Typical effective age is 1974 and newer

Class C

- Generally no anchor
- Market rents for CRU 1,001-3,000 square foot space type are typically $17-$24 per square foot or more
- Compete for tenants seeking functional space
- Located in less desirable areas
- Typical effective age is 1958 and newer

Capitalization rates are based on the investment class.

Condition

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

Poor:

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

Fair:

- below average maintenance;
- 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.

Unless otherwise noted, properties in this inventory are in average condition.
Condition affects rental rates.

Effective Year Built

Effective Year Built (also known as Effective Age) 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

Open air format shopping centre properties are stratified based on geographic areas referred to as study areas (see Study Area maps attached). Study Areas typically encompass a group of neighbourhoods within which the properties are more or less equally subject to a set of one or more economic forces. These economic forces include similar attributes that are shared by a location such as traffic influence

(vehicular and/or pedestrian), effective age of construction, and/or proximity to a particular population demographic. The location affects rental rates for certain space types (see Space Types description).

Size

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 the tenants, including basements and mezzanines; measured from the centre of joint partitioning to the outside wall surface. For shopping centres, typically the GLA reported by owners on their returned Request for Information (RFI) documents, is the size used. Size affects rental rates for certain space types.

Space Types

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

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.

Auto service is 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. Auto service space is stratified by size. Smaller auto service spaces (up to 3,000 square feet) have a higher rental rate than the larger (> 3,000 square feet) auto service spaces.

Drug stores are specialized space for medical service and their construction includes secured areas for controlled pharmaceuticals. They often have good exposure sites within the shopping centre and may have drive-thrus. Drug stores are typically larger than 3,000 square feet and are stratified by Investment Classification. The rental rates are in descending order with Class A having the highest rate and Class C the lowest.

Grocery stores, also known as food stores, are self-service shops offering a wide variety of food and household products, organized into aisles. They typically comprise meat, fresh produce, dairy, baked goods along with shelf space reserved for canned and packaged goods, as well as for various non-food items such as kitchenware, household cleaners, pharmacy products, and pet supplies. Grocery stores are typically 15,000 to 60,000 square feet and are stratified by effective age. Older grocery stores (effective

aged 1989 and older) have a lower rental rate than newer (effective aged 1990 and newer) grocery store space.

Theatres are spaces dedicated for film viewing, projection, and supporting retail. Theatres are similar in size to junior anchor spaces and include film projection space. Theatres have been further stratified based on effective age. Older theatres (1999 and older) have a lower rental rate than newer (2000 and newer) theatres.

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

Commercial Retail Units (CRUs) are general retail spaces that do not fall under any other space types. 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**
CRU 3,001 to 5,000 ft^2	**CRU MAX**
CRU 5,001 to 10,000 ft^2	**CRU MEG**

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

Junior Anchors are not as large as anchor tenants but are still large enough to be considered a draw for the shopping centre. They are stratified by size (GLA of 10,001 to 20,000 square feet or 20,001 to 60,000 square feet).

Land lease is a lease for a specific portion of land subject to specified terms. Land lease rates are stratified by Investment Class. On the shopping centre Assessment Detail Report, land leases are typically used for gas stations. The improvements are valued based on their depreciated cost to construct under service station equipment (SSE).

Library space is utilized for an organized collection of information resources and often include public spaces for reading and studying. These are generally similar in size to junior anchor spaces.

Office space is utilized, designed, or intended for typical office use, and typically located on the second floor or higher levels of a structure. Main floor office that experiences similar access and exposure as retail units may be treated as a CRU space for the purpose of valuation. See 2019 Downtown Office and 2019 Suburban Office Assessment Methodology guide.

CRU-Other is miscellaneous uses not identified under a space type category. Specific to Shopping Centre properties, this commercial retail unit space could include CRU space in the basement, finished mezzanine, seasonal, garden centre, basement, cold storage, shed, or lumber yard. Mezzanine space is an intermediate floor between floors of a building and usually smaller than the main floor. A mezzanine typically has a low ceiling and projects in the form of a balcony.

Parking Stall Count is applied to properties with underground parkades when the stalls are not required to satisfy the operation of the property.

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

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

Storage is typically unfinished heated space that is less accessible and not directly contiguous with other units.

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

Other Value Adjustments

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 the cost rates 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: Contamination refers to property that has been affected by environmental contamination which includes adverse conditions resulting from the release of hazardous substances into the air, surface water, groundwater, or soil. Refer to *City of Edmonton Assessment Valuation Procedures in Relation to Contaminated Properties.*

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 site's primary highest and best use. Excess land may be separated from the larger parcel (sub-divided) and have its own highest and best use, or it may allow for future expansion of the existing or anticipated improvement. Typical site coverage for a fully developed Shopping Centre property is 25%. Properties with less than 25% may experience a site specific adjustment. Excess land value is derived from assessed commercial land values. Please refer to the 2019 Commercial Land Assessment Methodology guide.

Road Allowance is the deduction for the private road that services the development. It is prorated based on a portion of the total assessment for the development it serves. Higher vacancy shortfall might be applied in association of the private road.

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

Surplus Land is the land not necessary to support the highest and best use of the existing improvement but, because of physical limitations, building placement, or neighborhood norms, cannot be sold off separately. Surplus land may or may not contribute positively to value, and may or may not accommodate future expansion of an existing or anticipated improvement. For the 2019 assessment, a 50% discount to the excess land rate was applied.

Other Definitions

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

Actual zoning is set by the Edmonton Zoning Bylaw 12800 and regulates the development of a parcel. Edmonton Zoning Bylaw 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 the actual zoning when current use differs from that which is permitted by the actual zoning as updated by Edmonton Zoning Bylaw 12800 (ie. legal nonconforming use).

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.

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.

Revision History

February 21, 2019 - removed Provincial Quality Standards section

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Eckert, J., Gloudemans, R., & Almy, R. (1990). Property Appraisal and Assessment Administration. Chicago, Illinois: International Association of Assessing Officers.

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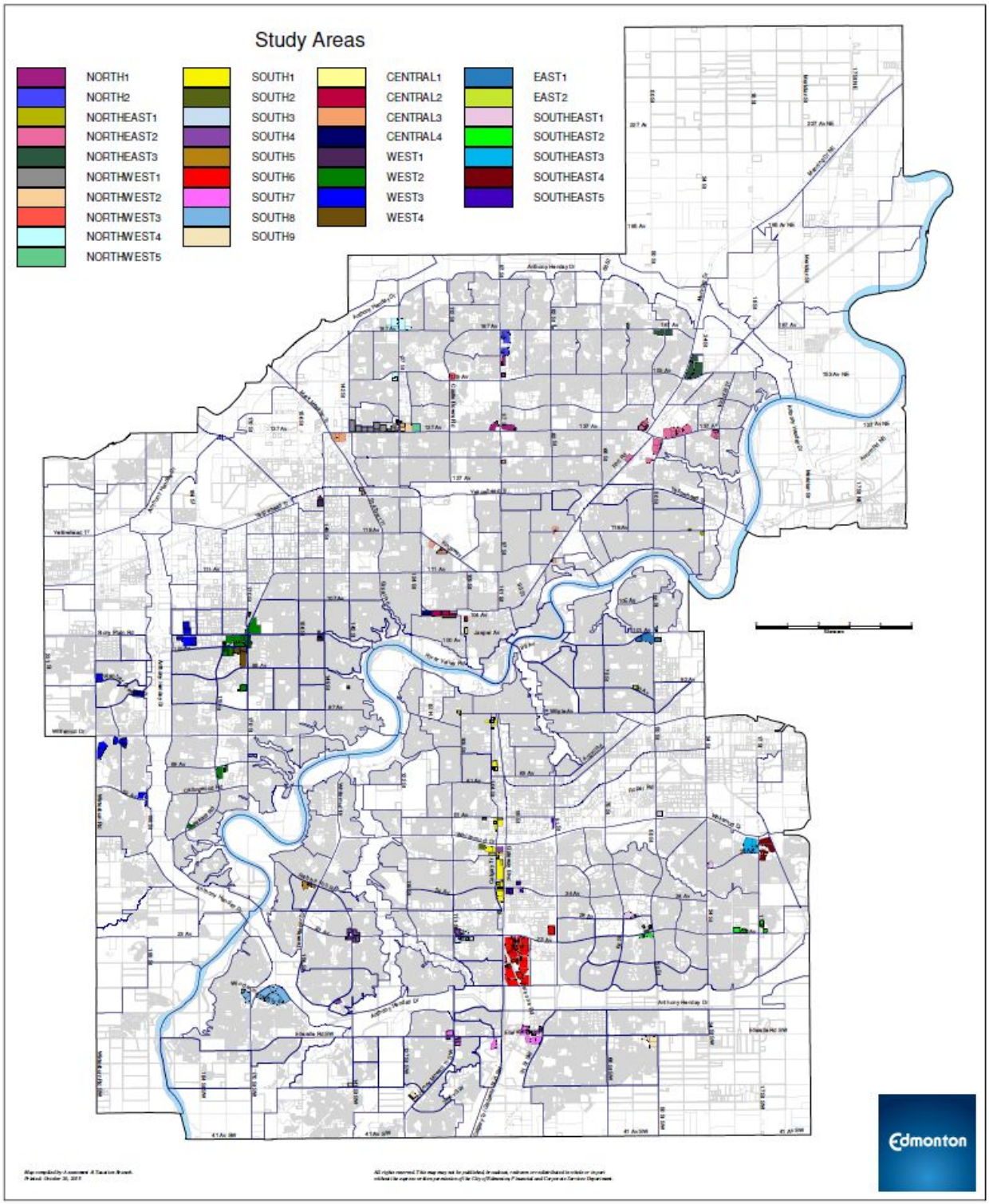
Study Area Maps



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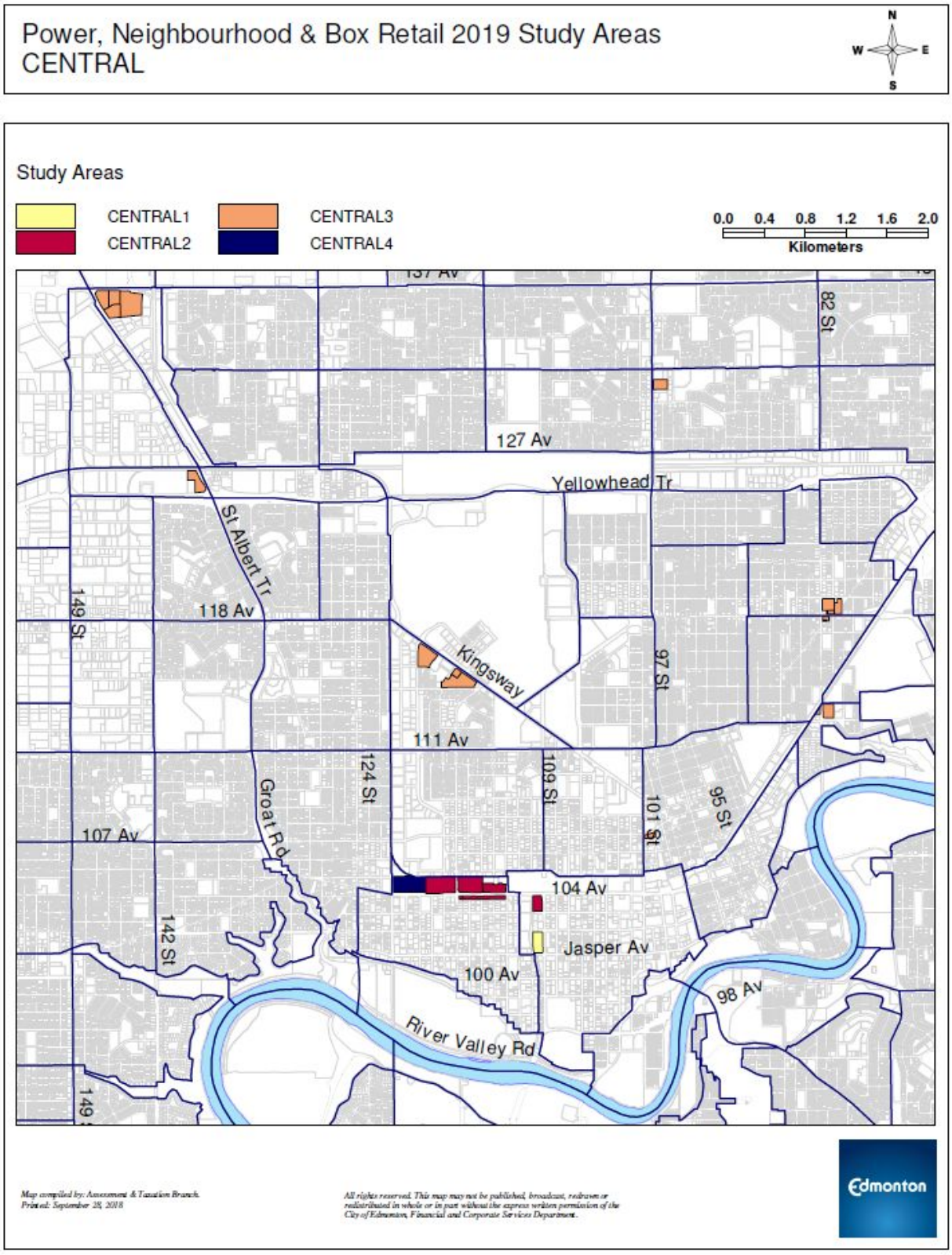

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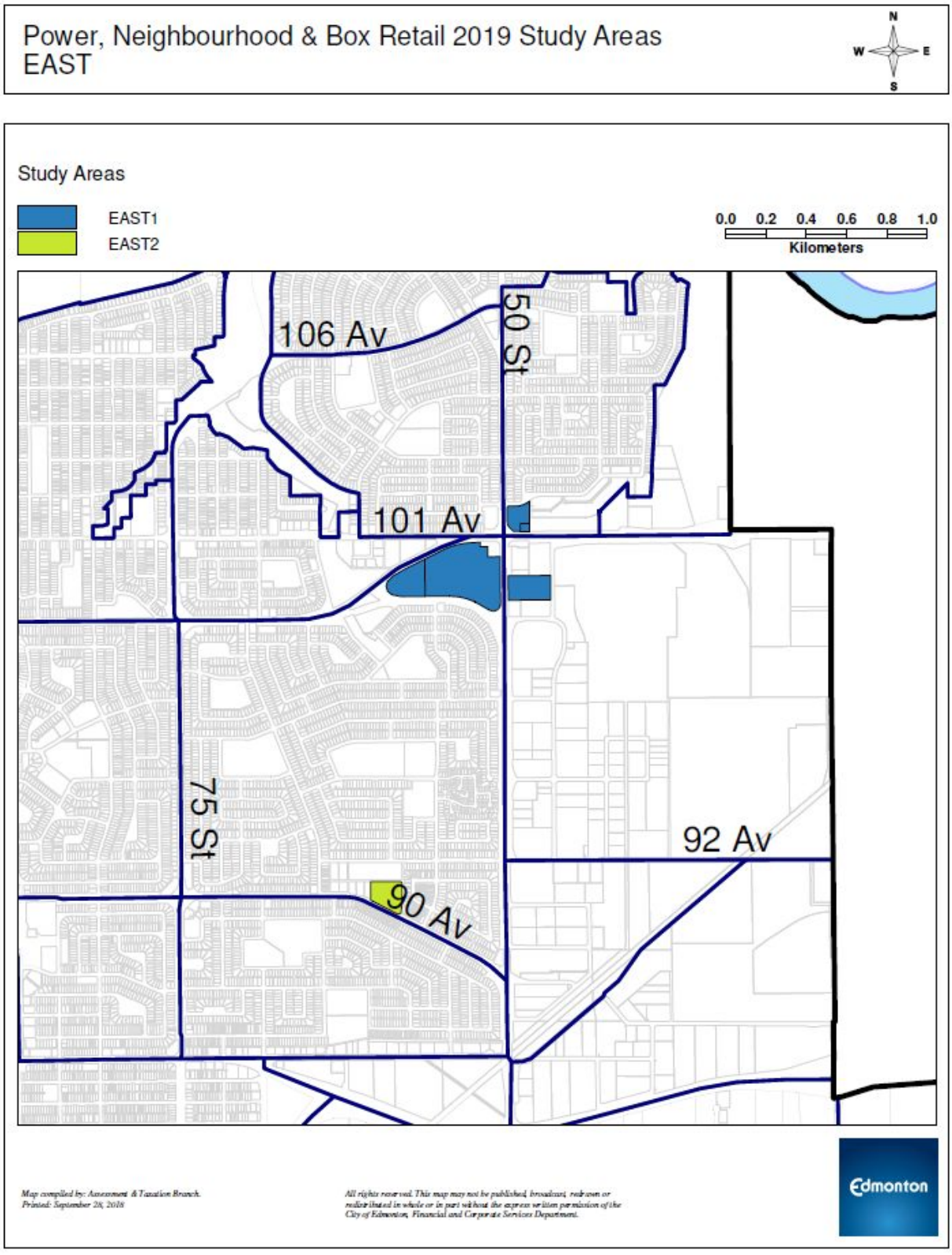

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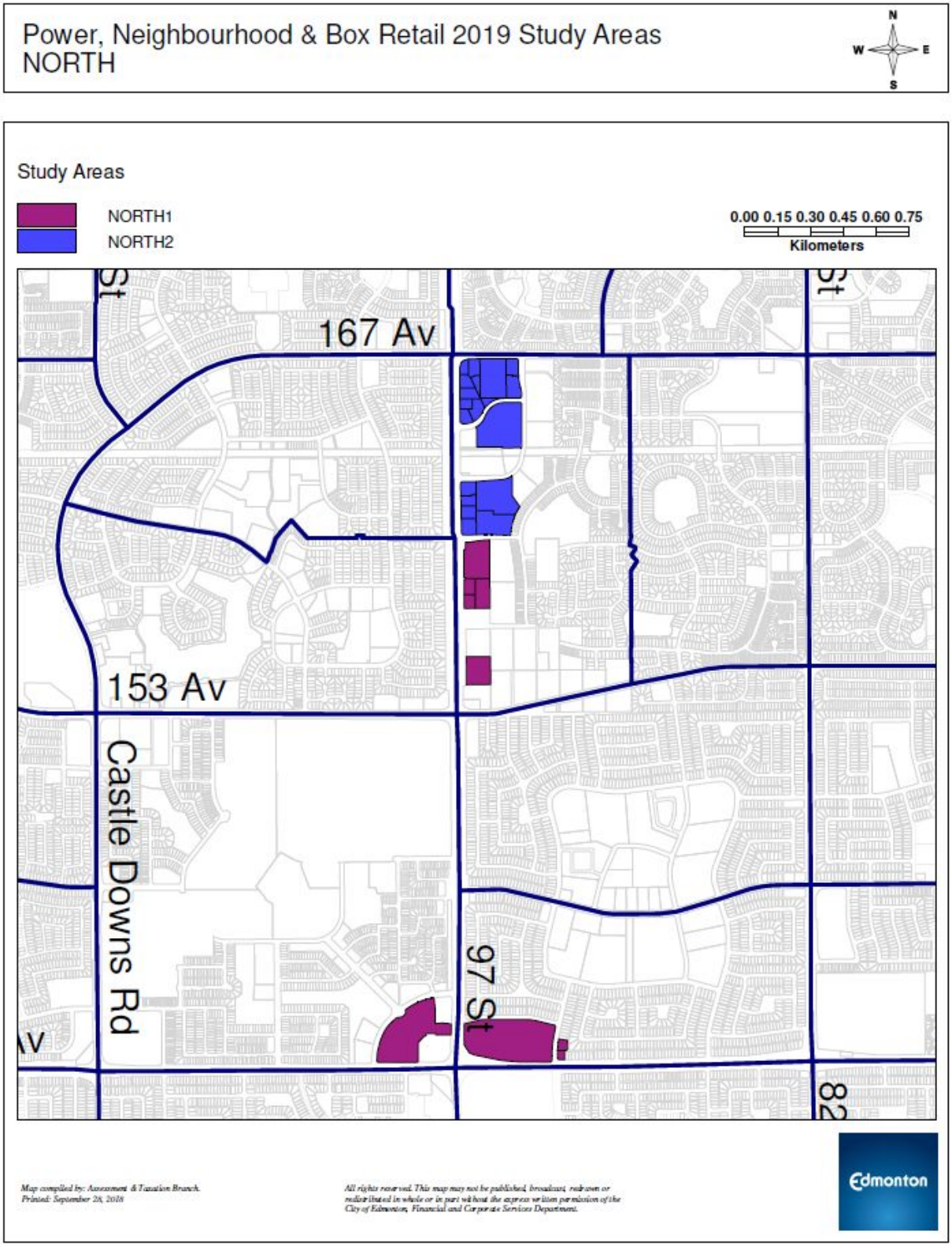

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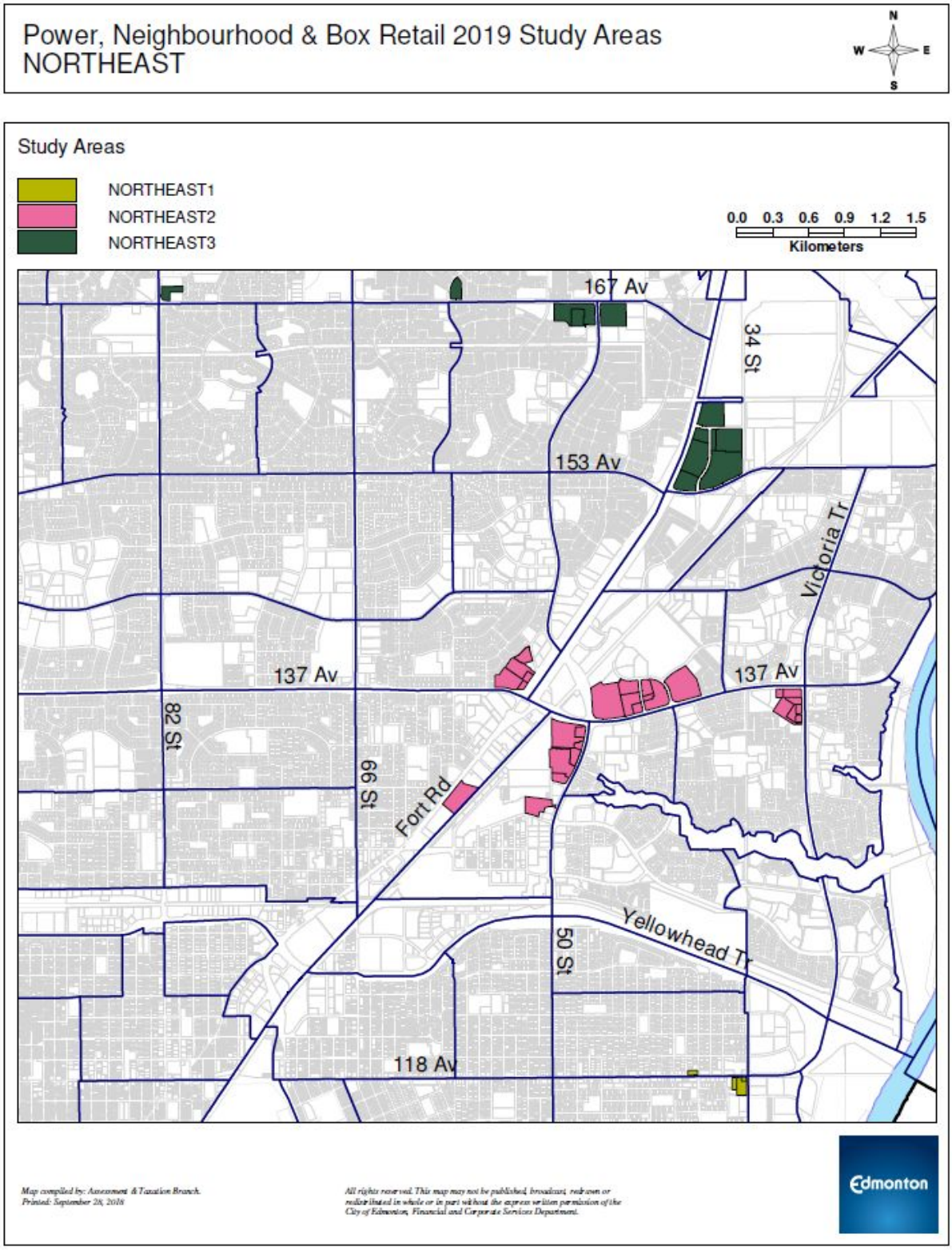

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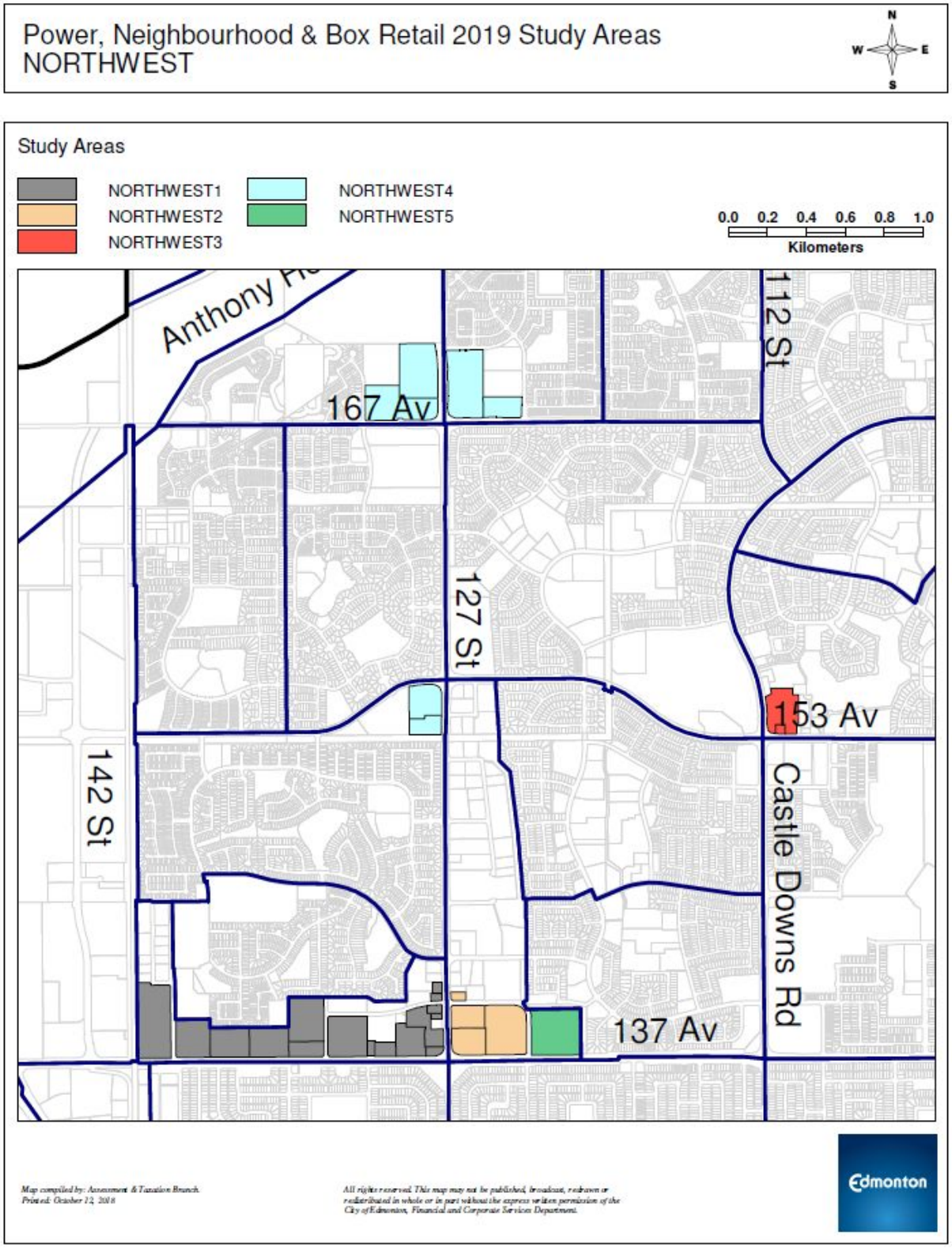

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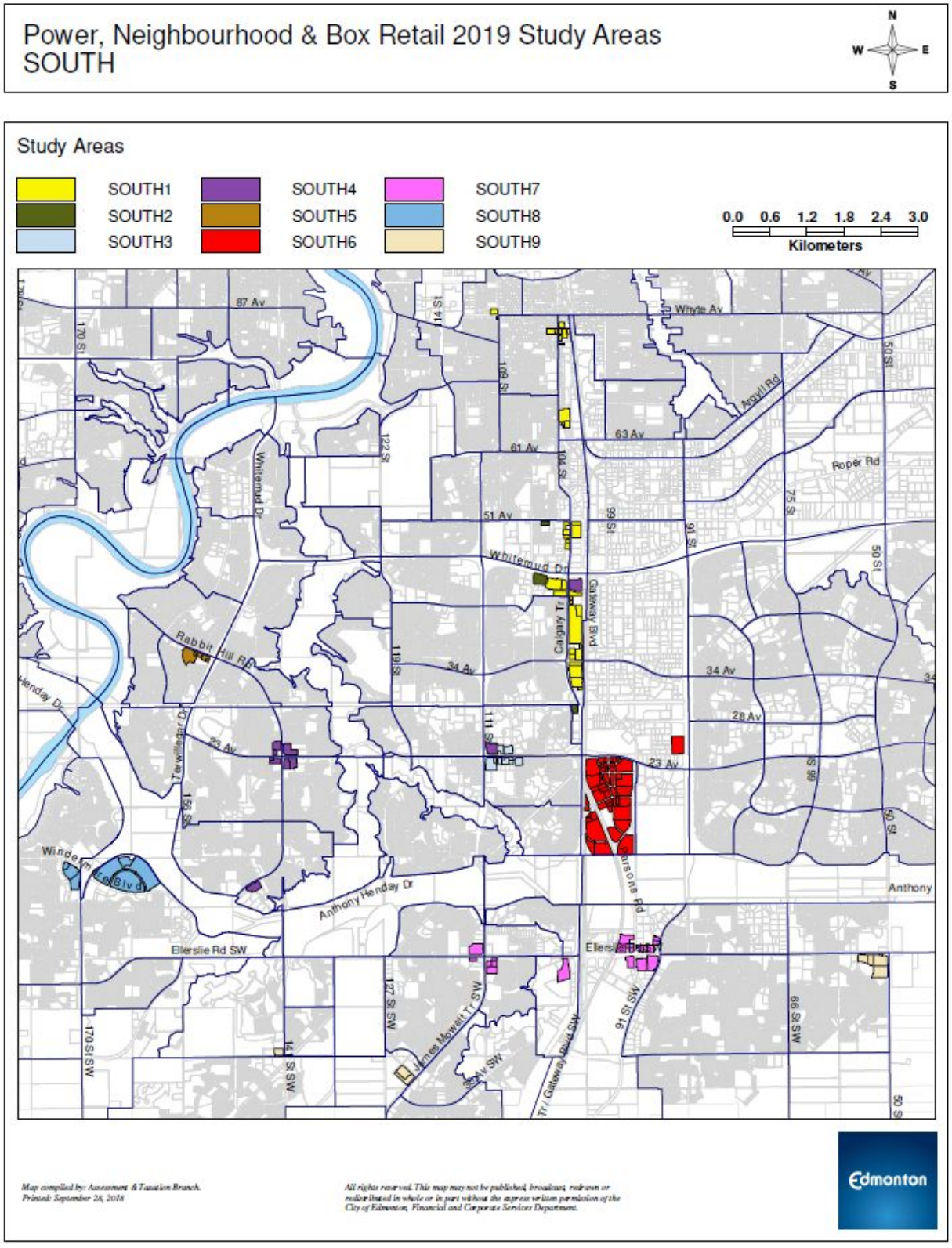

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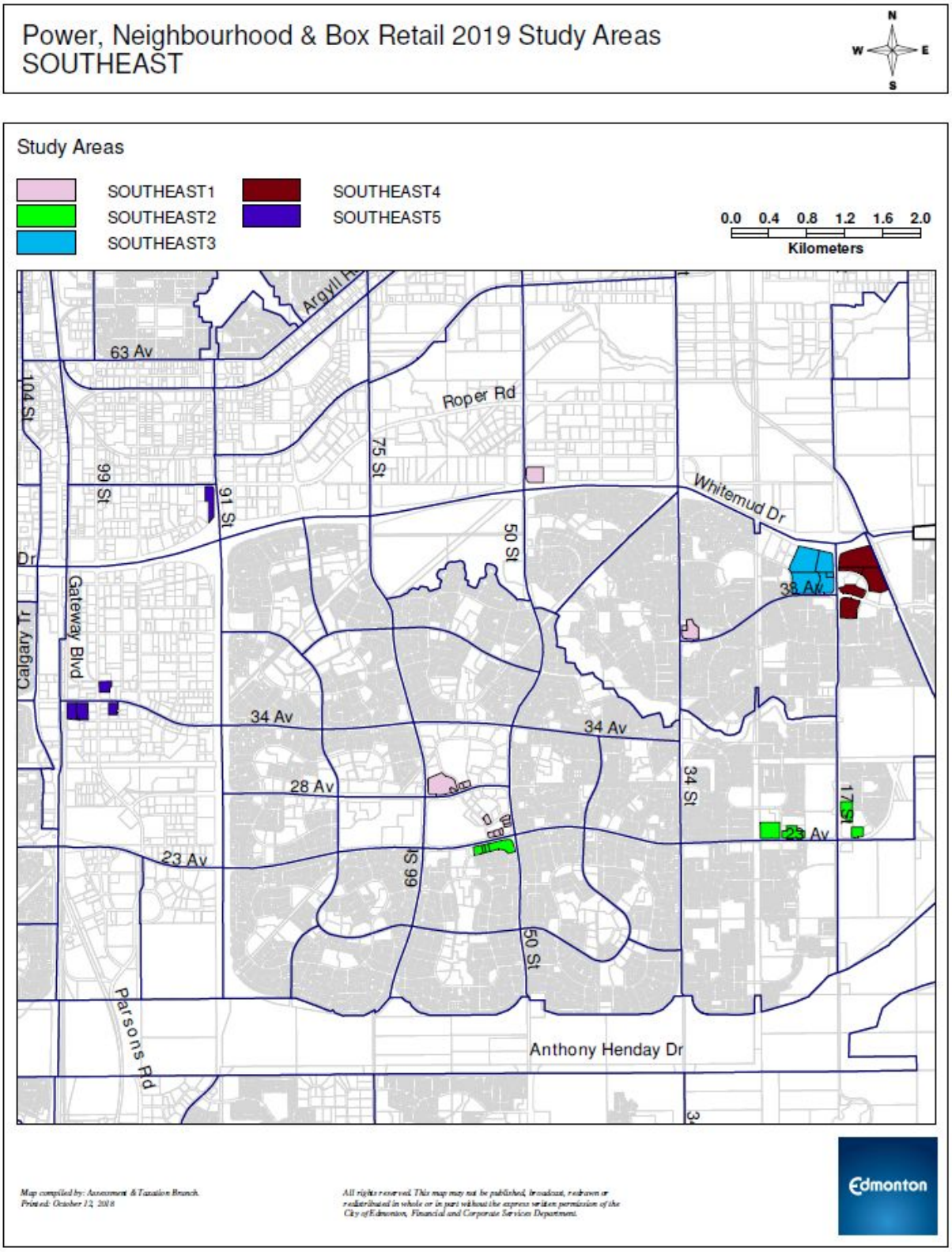
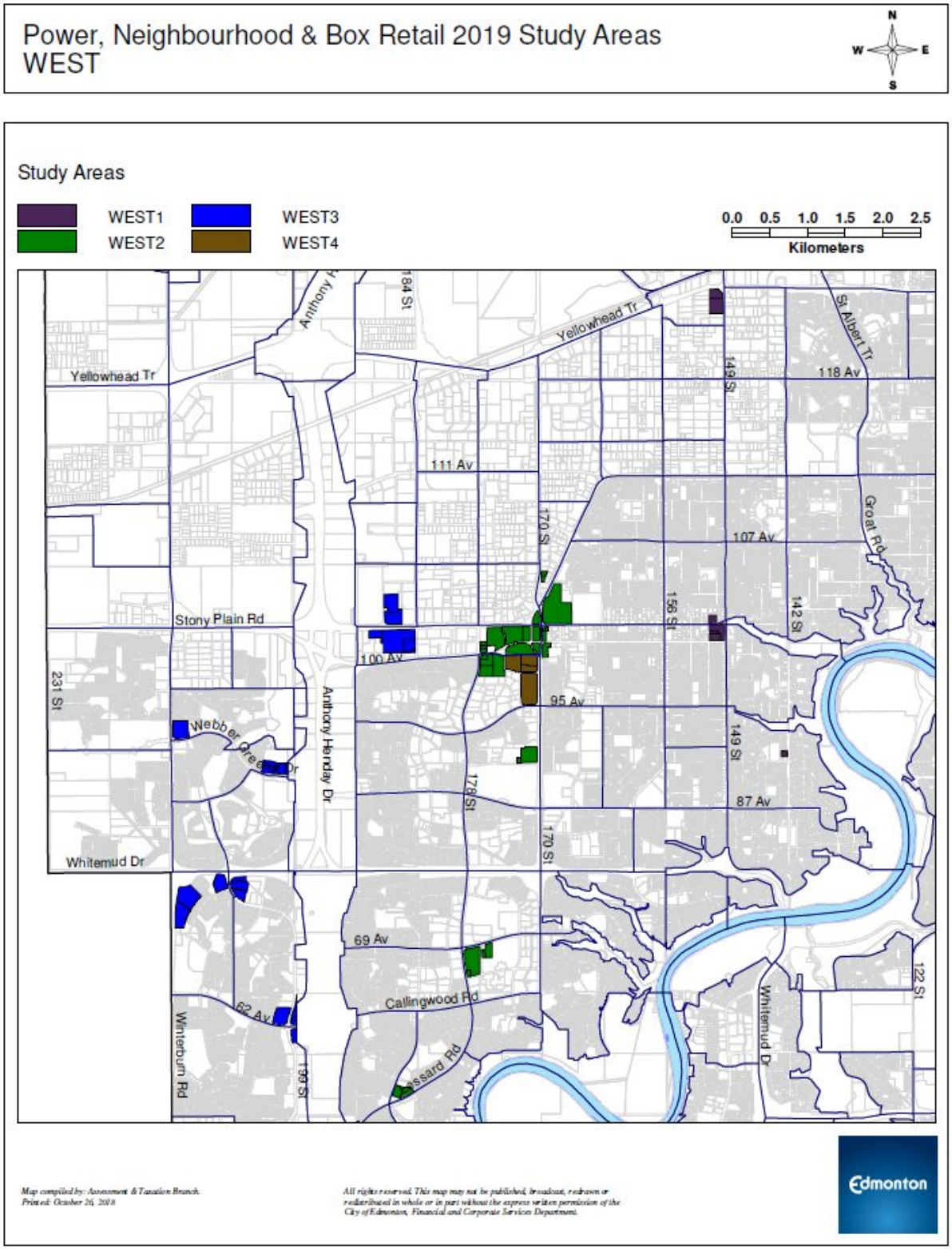


West



Time Adjustment Factors

2019 Time Adjustment Factor Chart

Shopping Centres- Open Air Anchored

DATE	TAF	DATE	TAF
13-Jul	1.1491	16-Jan	1.0429
13-Aug	1.1454	16-Feb	1.0395
13-Sep	1.1417	16-Mar	1.0362
13-Oct	1.1380	16-Apr	1.0328
13-Nov	1.1343	16-May	1.0295
13-Dec	1.1307	16-Jun	1.0262
14-Jan	1.1270	16-Jul	1.0229
14-Feb	1.1234	16-Aug	1.0196
14-Mar	1.1198	16-Sep	1.0163
14-Apr	1.1161	16-Oct	1.0130
14-May	1.1125	16-Nov	1.0097
14-Jun	1.1090	16-Dec	1.0065
14-Jul	1.1054	17-Jan	1.0032
14-Aug	1.1018	17-Feb	1.0000
14-Sep	1.0983	17-Mar	1.0000
14-Oct	1.0947	17-Apr	1.0000
14-Nov	1.0912	17-May	1.0000
14-Dec	1.0877	17-Jun	1.0000
15-Jan	1.0841	17-Jul	1.0000
15-Feb	1.0806	17-Aug	1.0000
15-Mar	1.0772	17-Sep	1.0000
15-Apr	1.0737	17-Oct	1.0000
15-May	1.0702	17-Nov	1.0000
15-Jun	1.0667	17-Dec	1.0000
15-Jul	1.0633	18-Jan	1.0000
15-Aug	1.0599	18-Feb	1.0000
15-Sep	1.0599	18-Mar	1.0000
15-Oct	1.0564	18-Apr	1.0000
15-Nov	1.0530	18-May	1.0000
15-Dec	1.0496	18-Jun	1.0000