2020 ASSESSMENT METHODOLOGY

COMMERCIAL OFFICES DOWNTOWN

A summary of the methods used by the City of Edmonton in determining the value of commercial office properties in downtown Edmonton for assessment purposes.

edmonton.ca/assessment

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Scope

This guide explains how Downtown Office 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*

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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)

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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*

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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

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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

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Commercial Property Types

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.

Office buildings are grouped into two areas:

Downtown Office Buildings are office buildings that are located in the downtown districts. See 2020 Office Districts Map.

Suburban Office Buildings are office buildings that are located in suburban districts. See 2020 Office Districts Map. For Suburban Office buildings please see 2020 Suburban Office Assessment Methodology.

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

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 include; power centres, neighbourhood shopping centres and box retail.

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.

Additional details are available in the 2020 Neighbourhood, Power Centre and Box Retail Assessment Methodology and the 2020 Retail and Retail Plaza Assessment Methodology, which are available online at Edmonton.ca.

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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, 2016 to June 30, 2019 was analyzed. The resulting model is then applied to the physical characteristics and attributes of every Downtown Office property to estimate each property's market value assessment.

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Sales information is received from the Land Titles Office. Sales are validated. Validation may include site inspections, interviews with involved parties, a review of land title documents, corporate searches, third party information, and sales validation questionnaires. The resulting validated sales are used to develop capitalization rates to use in the income approach. ***Sale price reflects the condition of a property on the sale date and may not be equal to the assessed value.***

For the 2020 valuation of Downtown Office properties, sales occurring from July 1, 2014 to June 30, 2019 were analyzed. 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.

In order to estimate market typical rents for buildings in the Downtown Office inventory for the 2020 valuation, only new leases and lease renewals commencing within a 3 year period prior to the valuation date have been considered. Lease step ups have not been used to derive the market typical rents for the 2020 valuation as a large enough dataset is provided by the new and renewal leases.

As a general rule, the City determines typical market rents for a full office floor. Therefore, if a lease rate includes more than one unit on the same floor, or a tenant has expanded into an additional unit on the same floor, the size of the units are combined into one rent for the floor occupied. If a rental rate includes area on more than one floor, the rent is analyzed on a per floor basis. This is supported by the *Alberta Assessors' Association, Practicing Assessment in Alberta Handbook (PAAH): Office Buildings Valuation Guide, (2016), at p.19*

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 Rent, generally defined, is the rental rate net of financial concessions such as periods of free rent during the lease term. As explained below, the City does not adjust rental rates for Tenant Improvements. For the 2020 valuation, the only financial concession found to be typical in the Downtown Office market, and adjusted for by the City, was periods of free rent. Please see Tenant Improvements below.

Lease types include *gross leases, modified gross leases, single net leases, double net leases,* and *triple*

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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 or 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 reflects 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 2020

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valuation, the only inducement found to be typical in the marketplace was periods of free rent for Downtown Office properties. Therefore, the City of Edmonton has taken periods of free rent into account when determining typical market rent. To account for free rent, the base rental rate is adjusted by amortizing the total amount of the free rent over the term of the lease.

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.

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, per space type (office or CRU) 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%

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

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Sample Assessment Detail Report

Edmonton

Assessment Detail Report

2020 DOWNTOWN OFFICE VALUATION SUMMARY

Roll Number:	1234567 Sample	Valuation Date:	July 1, 2019		
Name:	Sample Building	Number of Stories:	10	Act Zoning:	CCA
Address:	Sample Avenue	Year Built:	1970	Eff Zoning:	CB2
District:	F	Effective Year Built:	1980		
Classification:	BH	Connectivity:	NO		
Lot Size (ft²):	5,000	**Property Assessment:**		**$2,225,000**	
Legal Description:	Sample Plan: 1 Sample Block: A Sample Lot: 1				

Space Types		Gross Leasable Area (ft²)	Market Rent/ft²	Total	
Office Space		1,000	$20.00	$20,000	OFFICE GLA x MARKET RENT = OFFICE PGI Example: (1,000 ft² x $20) + (500 ft² x $10) = $25,000
Office - Other		500	$10.00	$5,000	
CRUs < 1,001 ft2		0	$0.00	$0	
CRUs 1,001 to 3,000 ft2		2,000	$15.00	$30,000	CRU GLA x MARKET RENT = CRU PGI Example: 2,000 ft² x $15 = $30,000
CRUs 3,001 to 5,000 ft2		0	$0.00	$0	
CRUs 5,001 to 10,000 ft2		0	$0.00	$0	
CRUs > 10,001 ft2		0	$0.00	$0	
CRU - Bank		0	$0.00	$0	
CRU - Drug Store		0	$0.00	$0	
CRU - Food Court		0	$0.00	$0	
CRU - Restaurant		0	$0.00	$0	
CRU - Warehouse		0	$0.00	$0	
CRU - Other		0	$0.00	$0	STORAGE GLA x MARKET RENT = STORAGE PGI Example: 500 ft² x $5 = $2,500
Storage		500	$5.00	$2,500	
Underground Parking Stalls	100		$100.00	$120,000	(PARKING STALLS x MARKET RENT PER MONTH) x 12 = PARKING PGI Example: 100 stalls x $100 = $10,000/month x 12 months = $120,000/year
Aboveground Parking Stalls	0		$0.00	$0	
Covered Parking Stalls	0		$0.00	$0	
Surface Parking Stalls	0		$0.00	$0	
Total Gross Leasable Area (ft²):		**4,000**			TOTAL OFFICE PGI + TOTAL CRU PGI + TOTAL STORAGE PGI + TOTAL PARKING PGI = TOTAL PGI Example: $25,000 + $30,000 + $2,500 + $120,000 = $177,500
			Potential Gross Income	**$177,500**	
Less: Vacancy Allowance					(OFFICE PGI + PARKING PGI) x TYPICAL VACANCY RATE Example: ($25,000 + $120,000) = $145,000 x 0.10 = $14,500 CRU PGI x TYPICAL VACANCY RATE Example: $30,000 x 0.05 = $1,500 PGI LESS VACANCY LOSS = EGI Example: $177,500 - ($14,500 + $1,500) = $161,500
Office			10.0%	$14,500	
CRU			5.0%	$1,500	
			Effective Gross Income	**$161,500**	
Less: Expenses					EGI LESS STRUCTURAL ALLOWANCE Example: $161,500 x 0.02 = $3,230
Structural Allowance			2.0%	$3,230	
Less: Vacancy Shortfall					(TOTAL OFFICE GLA x TYPICAL VACANCY RATE) x TYPICAL VACANCY SHORTFALL = OFFICE VACANCY SHORTFALL Example: (1,500 ft² x 0.10) = 150 x $10 = $1,500 (TOTAL CRU GLA x TYPICAL VACANCY RATE) x TYPICAL VACANCY SHORTFALL = CRU VACANCY SHORTFALL Example: (2,000 ft² x 0.05) = 100 x $10 = $1,000 EGI LESS STRUCTURAL ALLOWANCE LESS VACANCY SHORTFALL = NOI Example: $161,500 - $3,230 - $2,500 = $155,770
Office	150	$10.00	$1,500		
CRU	100	$10.00	$1,000		
			Net Operating Income	**$155,770**	
Stabilized Value					NOI / CAP RATE = MARKET VALUE SUBTOTAL Example: $155,770 / 0.07 = $2,225,286
Capitalization Rate				7.00%	
			Value Subtotal	**$2,225,286**	
Other Value Adjustments					
Additional Buildings				$0	
Associated Lots					
Buildings Under Construction					
Construction Allowance (Shell Space Allowance)					
Excess Land					
Surplus Land					
			2020 Market Value Estimate (Rounded)	**$2,225,000**	FINAL MARKET VALUE ESTIMATE UTILIZING THE INCOME APPROACH (Rounded down to the nearest 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.

Classification	Location
Size	Space Types

Classification

Downtown office properties are stratified into groups that are comparable to one another in terms of their overall desirability and marketability. Characteristics that may be considered in classification include quality, condition, effective year built, gross leasable area, size of floor, floorplate, number of stories, type and amount of parking, location, proximity and access to Light Rail Transit (LRT) system, connectivity to the Downtown Pedway System, and amenities such as daycares, fitness centres, conference centre, etc.

A class office buildings are generally the most desirable in the marketplace. They tend to be well located, newer, well known and attract well-known tenants. These buildings are generally the largest office buildings or complexes in the marketplace with a higher number of stories or a larger floorplate; typically they are over 200,000 ft² and higher than 15 stories. This class is further stratified into four subclasses; AAA, AA, AH and AL.

> **AAA class** office buildings are generally newest in age (effective year built 2010 and newer) and design with state of the art, efficient mechanical systems, and have the most efficient floorplates. These office buildings generally offer high quality finishes and a number of premium amenities.
>
> **AA class** office buildings are generally of high quality. These buildings may have undergone extensive retrofitting and may include notable or unique high end design, interior finishes and amenities.
>
> **AH class** office buildings are slightly inferior to AA buildings. These buildings are well maintained and include good quality functional finish. These buildings generally have superior characteristics and more amenities compared to AL.
>
> **AL class** office buildings generally have less upkeep, inferior characteristics, fewer amenities and less appeal when compared to AH office buildings. Dated finish, worn finishes and wear and tear are some characteristics of AL class buildings.

B class office buildings are smaller in comparison to A class office buildings, typically between 40,000 ft² and 200,000 ft², between 6 and 14 stories and are more basic with fewer amenities. This class is further stratified into three subclasses; BB, BH and BL.

> **BB class** office buildings are the best of the B class. They generally have premier office space, typically include notable or unique high end design, interior finishes and amenities. These buildings are generally newer in age (effective year built 1995 and newer) or have undergone extensive retrofitting; therefore, there is less risk in these investments and they are generally the most desirable in the B class marketplace.

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BH class office buildings are generally inferior to BB. They are generally of high quality and may be older than BB. These buildings are well maintained and include functional office finish. These buildings typically have more appeal compared to BL office buildings .

BL class office buildings are the least desirable in the B class marketplace. They are generally the oldest office buildings with less upkeep, inferior characteristics, fewer amenities and less appeal when compared to BH office buildings. Dated finish, worn finishes and wear and tear are some characteristics of BL class buildings.

C class office buildings are the smallest office buildings, under 40,000 ft², and below five stories with basic design and function. This class is further stratified into CH and CL.

CH class office buildings have functional office finish and are generally of high quality, well maintained and may be renovated.

CL class office buildings are the least desirable in the marketplace. They are generally the oldest office buildings with minimal amenities; they have below average maintenance levels and are nearing the end of their economic life.

Capitalization rates are based on Classification. Classification also affects rental rates.

Location

Office properties are stratified based on geographic areas referred to as districts.

The Downtown of Edmonton is bordered to the North by 105 Avenue, to the South by the river valley, to the East by 95 Street, and to the West by 113 Street. Office properties in the City of Edmonton located outside these boundaries are valued as Suburban Office properties. For an explanation of how Suburban Office properties are stratified, refer to the *2020 Suburban Office Assessment Methodology*. The City stratifies the Downtown Office Inventory into the Financial and Government Districts. These districts reflect a generally higher concentration of Financial or Government tenants located in each district; however, either tenancy is found throughout each area. The Government District is located west of 105th Street; the Financial District is located east of 105th Street.

For the 2020 valuation the only difference between the Government and Financial district is in the parking rates.

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. For Downtown office buildings, typically the GLA reported by owners on their returned RFI documents is the size used.

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Space Types

Space type has an influence on rental rates.

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)

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

CRU-Drug Store is specialized controlled space for the distribution of pharmaceuticals and related products. This will include special construction for secured areas for the storage of pharmaceuticals.

CRU-Food Court are small fast food retail units, located in a cluster, with common area seating.

CRU-Restaurant are food serving establishments that contain dedicated food preparation, kitchen, and sitting areas. Restaurants generally have a higher level of finish than most CRUs and have improved electrical, plumbing and venting.

CRU-Other is miscellaneous uses not identified under a space type category. E.g.: CRU Space in the basement.

CRU-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.

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 is treated as a CRU space for the purpose of valuation.

Office-Other is finished office space that does not offer the same utility or desirability as typical office space because of a lack of natural lighting or windows. This type of space is usually found in basements or mezzanines. E.g.: office in basement or server rooms. Additionally, for downtown office properties, a lack of accessibility (elevator access) deems space less desirable, thus, it is considered office other. E.g.: top floor space with no elevator access.

Parking is valued on a per stall basis and the parking rates vary depending upon the following parking types.

Underground: Parking located in a parking structure that is fully enclosed and protected

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from the outside elements.

Aboveground: Parking located in a parking structure that has limited protection from the outside elements. There is overhead coverage, but no protection on the sides.

Covered: Parking located on ground level that is not in a parking structure and has limited protection from the outside elements. There is overhead coverage, but no protection on the sides.

Surface: Parking located on ground level that is not covered and has no protection from the outside elements.

Roof Top: Parking located on top of a parking structure that has no protection from the outside elements. This type of parking stall is assessed at the same rate as surface parking.

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, or alley. For the 2020 assessment, these stalls are assessed as a single stall.

Storage is unfinished space that can only be used as storage as it does not offer utility for other uses due to its small size, low ceiling height, lack of windows, lack of loading access, or its location within the structure. Storage space offers less utility than warehouse space, as it is typically located in a basement or mezzanine area.

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 permitted uses 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. Parkades do not qualify as associated lots.

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.

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

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improvement. ***Excess land value is derived from assessed commercial land values. Please refer to the 2020 Commercial Land Assessment Methodology.***

Edmonton Zoning Bylaw No.12800 is used to determine the appropriate parking requirements for calculating the amount of excess land in the Office inventory.

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.***

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.

Condition of a property is 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.

Connectivity refers to properties that are connected to the Downtown Pedway System as shown on the Downtown Pedways Map on Edmonton.ca. Pedways may be above ground or below grade.

Effective Year Built is the chronological age of a property adjusted to reflect an addition or significant renovation that extends the improvement's remaining economic life. The 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

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components (electrical, plumbing and HVAC). Completed additions to existing improvements will alter the effective age of a property.

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 Edmonton Zoning Bylaw 12800 (i.e. legal nonconforming use).

Land Use Code (LUC) defines the use of a property. The amount of a property subject to any specific LUC will be expressed as a percentage (%).

LRT Access refers to direct access or close proximity to the Downtown Light Rail Transit system.

Number of Stories refers to the number of floors constructed above grade.

Quality of a property refers to the methods and materials used in the construction and design of a property (workmanship, complexity of the structure, use of high end or low end materials).

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

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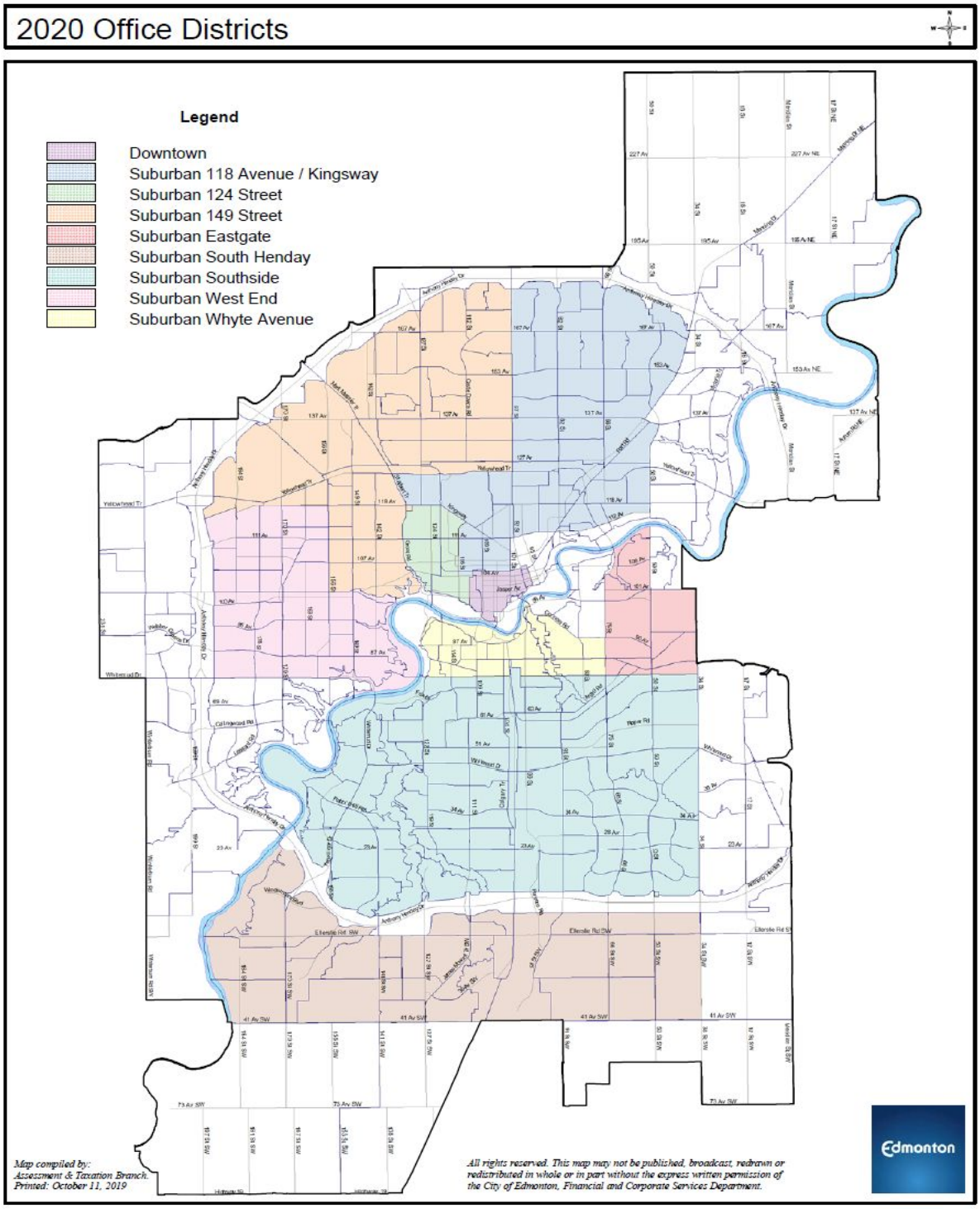
Maps



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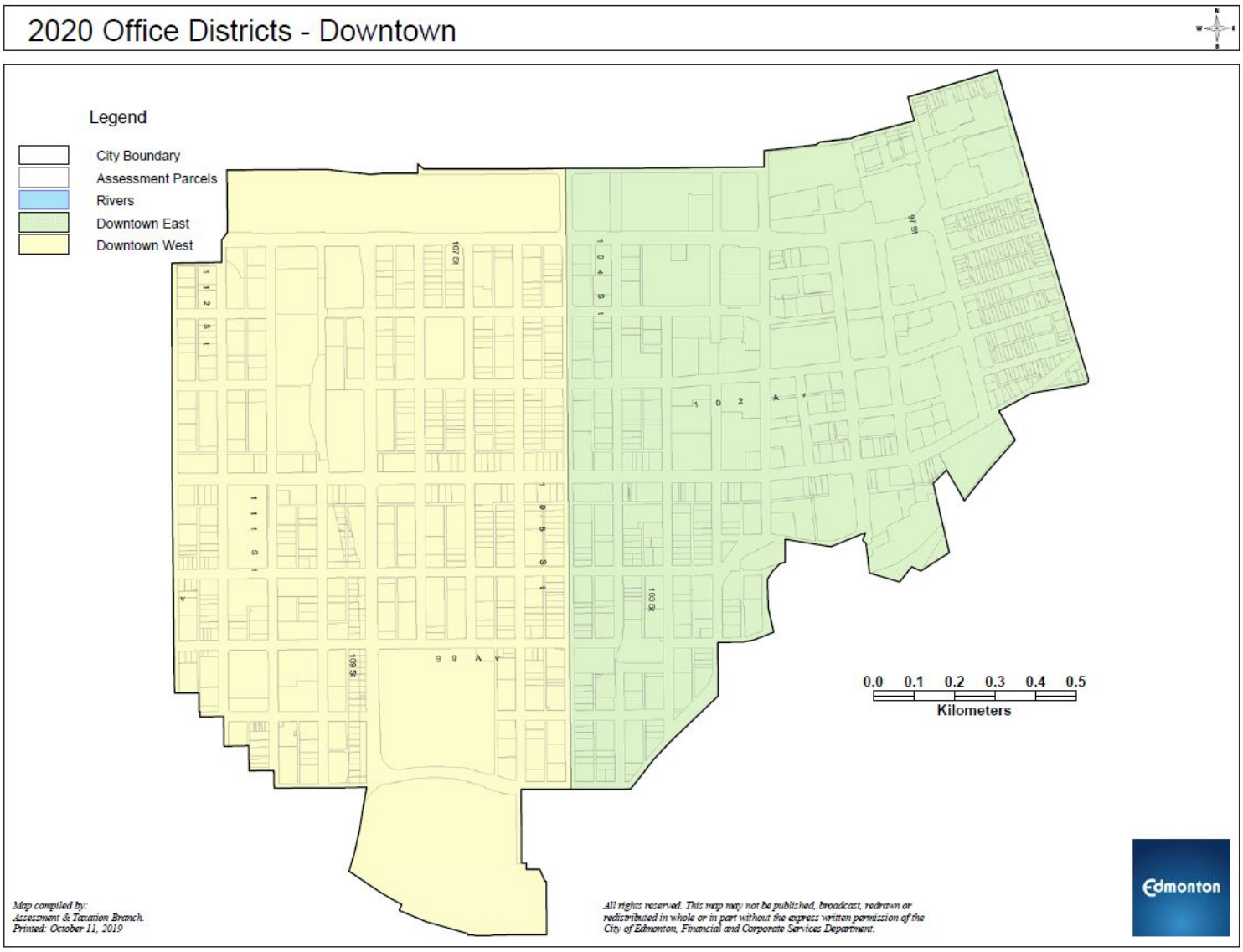

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Time Adjustment Factors

TIME ADJUSTMENT FACTORS
2020
DOWNTOWN OFFICE

DATE	TAF	DATE	TAF
Jul-14	0.7504	Jan-17	0.8854
Aug-14	0.7513	Feb-17	0.8961
Sep-14	0.7522	Mar-17	0.9068
Oct-14	0.7531	Apr-17	0.9175
Nov-14	0.7540	May-17	0.9282
Dec-14	0.7549	Jun-17	0.9389
Jan-15	0.7558	Jul-17	0.9496
Feb-15	0.7567	Aug-17	0.9538
Mar-15	0.7576	Sep-17	0.9580
Apr-15	0.7585	Oct-17	0.9622
May-15	0.7594	Nov-17	0.9664
Jun-15	0.7603	Dec-17	0.9706
Jul-15	0.7612	Jan-18	0.9748
Aug-15	0.7662	Feb-18	0.9790
Sep-15	0.7712	Mar-18	0.9832
Oct-15	0.7762	Apr-18	0.9874
Nov-15	0.7812	May-18	0.9916
Dec-15	0.7862	Jun-18	0.9958
Jan-16	0.7912	Jul-18	1.0000
Feb-16	0.7962	Aug-18	1.0000
Mar-16	0.8012	Sep-18	1.0000
Apr-16	0.8062	Oct-18	1.0000
May-16	0.8112	Nov-18	1.0000
Jun-16	0.8162	Dec-18	1.0000
Jul-16	0.8212	Jan-19	1.0000
Aug-16	0.8319	Feb-19	1.0000
Sep-16	0.8426	Mar-19	1.0000
Oct-16	0.8533	Apr-19	1.0000
Nov-16	0.8640	May-19	1.0000
Dec-16	0.8747	Jun-19	1.0000

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