

2022

ASSESSMENT METHODOLOGY

COMMERCIAL - NEIGHBOURHOOD, POWER AND BOX RETAIL

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

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Scope

This guide explains how Neighbourhood, Power & Box Retail 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 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 MRAT regulation.

Property assessments represent:

- an estimate of the value;
- of the fee simple estate in the property;
- as the property existed on December 31, 2021;
- reflecting typical market conditions;
- as if the property had been sold on July 1, 2021;
- on the open market;
- from a willing seller to a willing buyer.

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

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

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

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

Both *market value* and *property*, along with additional terms are defined in the *MGA* and *MRAT* :

s.284(1)(r) "**property**" means

- (i) a parcel of land
- (ii) an improvement, or
- (iii) a parcel of land and the improvements to it

MGA .s.284(1)(r)

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

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

MRAT s.1(k)

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

MRAT s.9(1)

s.1(1)(n) "**market value**" means the amount that a property, as defined in section 284(1)(r), might be expected to realize if it is sold on the open market by a willing seller to a willing buyer

MGA s.1(1)(n)

s.5 An assessment of property based on **market value**

- (a) must be prepared using mass appraisal,
- (b) must be an estimate of the value of the fee simple estate in the property, and
- (c) must reflect typical market conditions for properties similar to that property

MRAT s.5

s.289(2) Each assessment must reflect

- (a) the characteristics and physical condition of the property on **December 31** of the year prior to the year in which a tax is imposed

MGA s.289(2)(a)

s.6 Any assessment prepared in accordance with the Act must be an estimate of the value of a property on **July 1** of the assessment year

MRAT s.6

s.1(g) "**mass appraisal**" means the process of preparing assessments for a group of properties using standard methods and common data and allowing for statistical testing

MRAT s.1(g)

Mass Appraisal

Mass appraisal is the legislated methodology used by the City of Edmonton for valuing individual properties, and involves the following process:

- properties are stratified into groups of comparable properties
- common property characteristics are identified for the properties in each group
- a uniform valuation model is created for each property group

31(c) **“valuation model”** means the representation of the relationship between property characteristics and their value in the real estate marketplace using a mass appraisal process

MRAT s.31(c)

The following two quotations indicate how the International Association of Assessing Officers distinguishes between mass appraisal and single-property appraisal:

“... single-property appraisal is the valuation of a particular property as of a given date: mass appraisal is the valuation of many properties as of a given date, using standard procedures and statistical testing.”

“Also, mass appraisal requires standardized procedures across many properties. Thus, valuation models developed for mass appraisal purposes must represent supply and demand patterns for groups of properties rather than a single property.”

Property Appraisal and Assessment Administration, pg. 88-89

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

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

Valuation Model

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

s31 (a) **“coefficient”** means a number that represents the quantified relationship of each variable to the assessed value of a property when derived through a mass appraisal process

(b) **“factor”** means a property characteristic that contributes to a value of a property;

(d) **“variable”** means a quantitative or qualitative representation of a property characteristic used in a valuation model

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

s.33 Information prescribed ... does not include coefficients

MRAT, s.33(3)

Valuation Model

- variables are identified from property characteristics
- statistical analysis determines 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 or a drug store greater than 8,000 square feet. They typically provide for the sale of convenience goods and personal services for the day-to-day living needs of the immediate neighbourhood. Neighbourhood shopping centres typically occur over large commercial areas that include more than one legal parcel 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 2022 Downtown Office Assessment Methodology.

Suburban Office Buildings are office buildings that are located in suburban districts. See 2022 Suburban Office Assessment Methodology.

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 2022 Downtown Office, 2022 Suburban Office and 2022 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 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.
- For 2022, a COVID Income Addendum requesting information on abatements, deferrals and CECRA (Canada Emergency Commercial Rent Assistance) payments was sent to property owners. In addition, the COVID Income Addendum also requested information on abandoned, breached, or amended leases.

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 the 2022 valuation, income information from July 1, 2016 to July 1, 2021 was analyzed. The resulting model was then applied to the physical characteristics and attributes of every shopping centre property to estimate each property's market value assessment.

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 2022 valuation, sales occurring from July 1, 2016 to June 30, 2021 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.

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 amount in dollars per square foot 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 2022 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 were applied when determining typical market rent. Please see Tenant Improvement Allowances and Tenant Inducements below.

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 the 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 remodeling.

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 the 2022 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 the 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 and Collection Loss 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. For the 2022 assessment, both a vacancy and collection loss study were developed. The results of these studies were then added together in order to form the vacancy and collection loss allowance. The raw data for these studies came from tenant rolls, the COVID Addendum, and year end financial statements. Deferrals were not considered as part of collection loss because these are unpaid contractual rents that were agreed to be paid at a future date. These allowances are usually expressed as a percentage of potential gross income.

The breakdown of vacancy and collection loss allowance is as follows:

Space	Vacancy Allowance	Collection Loss Allowance	Vacancy and Collection Loss Allowance
Majors (Anchor, Grocery, Drug Store)	2.00%	0.00%	2.00%
CRU	7.00%	3.00%	10.00%
Theatres	2.00%	8.00%	10.00%
Offices	5.00%	0.00%	5.00%

Should a property demonstrate a history of higher than typical vacancy, the City may apply an adjusted stabilized vacancy and collection 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 current typical range. The rent rolls must show that the property has experienced a vacancy greater than the typical range in each of the 3 preceding years. If this is demonstrated, the average of the 3 years will determine which stabilized vacancy and collection loss allowance is applied. The ranges and the corresponding stabilized vacancy and collection loss 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 Range (over three years)	Stabilized Vacancy and Collection Loss Allowance
≥ 20% to < 30%	15%
≥ 30% to < 40%	20%
≥ 40% to < 50%	25%
≥ 50% to < 60%	30%
≥ 60% to < 80%	35%
≥ 80% to < 100%	40%

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



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, such as operating expenses, heating, security, property taxes, etc. Storage space is not included in the vacancy shortfall calculation.

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

Net Operating Income (NOI) is the actual or anticipated (before income tax) net income from the operation of the property after deducting all expenses from the effective gross income but before debt servicing costs. The term is often abbreviated to net income and sometimes stated as net income before recapture.

$$\text{EGI} - \text{OE} = \text{NOI}$$

Structural Allowance 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 shopping centres from the past 5 years to the valuation date; deriving a net operating income for each of these sales using typical market rents, vacancy and collection loss allowances and operating costs; and then dividing the estimated NOI's by the time-adjusted sale prices.***

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

Sample Assessment Detail Report



Assessment Detail Report

2022 SHOPPING CENTRE VALUATION SUMMARY

Roll Number:	1234687	Valuation Date:	July 1, 2021
Name:	Sample Building	Property Type:	Open Air Anohored
Address:	Sample Avenue	Condition:	Average
Study Area:	SAMPLE1	Legal Description:	Plan: xxxx Block: x Lot: 8
Lot Size (ft²):	123,468	Investment Class:	A
Effective Year Built:	2021	Effective Zoning:	CB2
Actual Year Built:	2021	Actual Zoning:	CB2
		Property Assessment:	\$20,273,500

Space Types	Gross Leasable		
	Area (ft²)	Market Rent /ft²	Total
Anchor Tenant 1	80,000	\$13.50	\$1,080,000
Anchor Tenant 2	0	\$0.00	\$0
Grocery Store	0	\$0.00	\$0
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 Fast Food	0	\$0.00	\$0
CRU - Restaurants ≤ 3,000 ft²	0	\$0.00	\$0
CRU - Restaurants ≥ 3,001 ft²	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
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	\$1,374,700

ANCHOR GLA x MARKET RENT = ANCHOR POI
EXAMPLE: 80,000 SQFT x \$13.50 = \$1,080,000

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

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

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

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

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

ANCHOR POI + CRU POI + OFFICE POI + STORAGE POI + LAND LEASE POI + PARKING POI = TOTAL POI
EXAMPLE: \$1,080,000 + \$70,000 + \$13,200 + \$1,500 + \$90,000 + \$120,000 = \$1,374,700

Less: Vacancy and Collection Allowance			
Majors (Anchor, Grocery, Drug Store)		2.0%	\$21,600
CRU		10.0%	\$7,000
Office		5.0%	\$660
		Effective Gross Income	\$1,345,440

ANCHOR POI x TYPICAL VACANCY RATE
EXAMPLE: \$1,080,000 x 0.02 = \$21,600

CRU POI x TYPICAL VACANCY RATE
EXAMPLE: \$70,000 x 0.10 = \$7,000

OFFICE POI x TYPICAL VACANCY RATE
EXAMPLE: \$13,200 x 0.05 = \$660

TOTAL POI - STABILIZED VACANCY LOSS = EGI
EXAMPLE: \$1,374,700 - (\$21,600 + \$7,000 + \$660) = \$1,345,440

Less: Expenses			
Structural Allowance		2.0%	\$26,908
Less: Vacancy Shortfall			
Majors (Anchor, Grocery, Drug Store)	1,600	\$12.00	\$19,200
CRU	250	\$17.50	\$4,375
Office	55	\$16.00	\$880
		Net Operating Income	\$1,294,077

EGI x 2.0% = STRUCTURAL ALLOWANCE
EXAMPLE: \$1,345,440 x 0.02 = \$26,908

(TOTAL ANCHOR GLA x TYPICAL VACANCY RATE) x TYPICAL VACANCY SHORTFALL = ANCHOR VACANCY SHORTFALL

EXAMPLE: (80,000 SQFT x 0.02) x \$12.00 = \$19,200

(TOTAL CRU GLA x TYPICAL VACANCY RATE) x TYPICAL VACANCY SHORTFALL = CRU VACANCY SHORTFALL

EXAMPLE: (2,500 SQFT x 0.10) x \$17.50 = \$4,375

(TOTAL OFFICE GLA x TYPICAL VACANCY RATE) x TYPICAL VACANCY SHORTFALL = OFFICE VACANCY SHORTFALL

EXAMPLE: (1,100 SQFT x 0.05) x \$16.00 = \$880

EGI - STRUCTURAL ALLOWANCE - VACANCY SHORTFALL = NOI
EXAMPLE: \$1,345,440 - \$26,908 - (\$19,200 + \$4,375 + \$880) = \$1,294,077

Stabilized Value	
Capitalization Rate	6.25%
Value Subtotal	\$20,705,232

MARKET VALUE = NOI / CAP RATE
EXAMPLE: \$1,294,077 / 0.0625 = \$20,705,232

Other Value Adjustments	
Additional Building	
Associated Lots	
Building Under Construction	
Construction Allowance	-\$431,250
Contamination	
Excess Land / Surplus Land	
Parking Adjustment	
Road Allowance	
Service Station Equipment (SSE)	

CONSTRUCTION ALLOWANCE
ASSUME = 6,000 SQFT UNFINISHED LEASABLE SPACE
CRU VACANCY SHORTFALL = 250 SQFT
CONSTRUCTION ALLOWANCE = (6,000 SQFT - 250 SQFT) X \$75 = \$431,250

COMMENTS	
	2022 Market Value Estimate (Rounded) \$20,273,500

FINAL MARKET VALUE ESTIMATE UTILIZING THE INCOME APPROACH
\$20,705,232 - \$431,250 = \$20,273,500 (Rounded down to the nearest 500)

Variables

Not all variables affect market value. Below is the list of variables that affect the assessment of Neighbourhood, Power Centre and Box Retail for 2022.

Investment Classification	Location
Condition	Size
Effective Year Built	Space Type

Investment Classification

Investment classification is based on **best fit** using the following criteria:

Class A

Part of a development that

- Includes one or more anchor(s) or grocery store or drugstore anchor
- Attracts national and premier occupants
- Located in new and/or desirable areas
- Typical effective age is 1998 and newer

Class B

Part of a development that

- Includes one or more anchor(s) or grocery store or drugstore anchor
- Includes a wide range of occupants and may include some national occupants
- Located in proximity to fully-developed areas
- Typical effective age is 1974 and newer

Class C

- Generally no anchor
- Compete for occupants 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:

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.

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

Effective Year Built

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. Effective age is the current assessment year minus the effective year. The components that when replaced or extensively renovated affect the remaining economic life of a property include the roof, the building envelope (windows and doors, exterior siding, walls including insulation and vapor barrier, and other structural components), the foundation, and mechanical components (electrical, plumbing and HVAC). Completed additions to existing improvements will alter the effective age of a property.

Location

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 properties that are more or less equally subject to similar economic forces. Economic forces are affected by location, traffic influence (vehicular and/or transit and/or pedestrian), effective year built, and/or proximity to a particular population demographic. The Study Area 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 year built. Older anchor spaces (1980 to 1997) 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 an unfinished space designed for vehicles to enter the structure and generally there are large bay doors. They may contain service pits or lifts. Typically, it consists of automobile service bays, auto body repair and detailing, muffler, glass, oil, tire, or mechanical repair services. Auto service space is stratified by size. Smaller auto service spaces (up to 3,000 square feet main floor area) have a higher rental rate than the larger (> 3,000 square feet main floor area) auto service spaces.

CRU - 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. Bank and bank pads are stratified by Investment Classification.

CRU - 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 59,999 square feet) and Investment Classification.

Drug stores are specialized space for medical service and their construction will include secured areas for controlled pharmaceuticals and may include clinic and retail areas. Drug stores are larger than 3,500 square feet and are stratified by Investment Classification.

Grocery stores, also known as food stores, are self-service shops offering a wide variety of food and household products, organized into aisles. Grocery Stores must comprise all of the major departments including: 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 18,000 to 60,000 square

feet and are stratified by effective year built. Older grocery stores (1989 and older) have a lower rental rate than newer (1990 and newer) grocery store space.

Theatres are spaces dedicated for film viewing, projection, and supporting retail. Theatres have been further stratified based on effective year built. Older theatres (effective year built 1995 to 1999) have a lower rental rate than newer (effective year built 2000 and newer) theatres.

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

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:

CRU < 1,001 ft²

CRU 1,001 to 3,000 ft²

CRU 3,001 to 5,000 ft²

CRU 5,001 to 10,000 ft²

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.

CRU - Restaurant is a food or beverage service establishment that contains a dedicated food or beverage preparation area. May also contain a commercial kitchen area with improved ventilation, electrical and plumbing. This space type is stratified based on gross leasable area as follows:

CRU-Restaurant ≤ 3,000 ft²

CRU-Restaurant ≥ 3,001 ft²

CRU - Restaurants Fast Food is a food or beverage service establishment that has one or more drive-thru windows. May also contain a commercial kitchen area with improved ventilation, electrical and plumbing.

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 and car washes. The improvements are valued based on their depreciated cost to construct under service station equipment (SSE).

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.

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

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.

Upper level retail space is finished and utilized as an integral part of customer service space to generate revenue. It can only be accessed from the main floor space through a stairwell and is unlikely to be leased separately from the main floor. It receives a lower rental rate than the main floor.

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 parking requirement 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 in effect on July 1, 2020, prior to Open Option parking coming into effect, outlined 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 surface water, groundwater, or soil.

Excess Land on an improved parcel is the area of land not needed to meet the legal requirements for the existing improvement. It is also the area of the parcel not needed to accommodate the parcel's primary highest and best use. Excess land may be separated from the larger parcel (subdivided) and have its own highest and best use, or it may allow for future expansion of the existing or anticipated improvement. Excess land value is derived from assessed commercial land values. Please refer to the 2022 Commercial Land Assessment Methodology.

Parking requirements for calculating the amount of excess land for Neighbourhood, Power Centre, and Box Retail properties were determined using the Edmonton Zoning Bylaw No. 12800 in effect on July 1, 2020, prior to Open Option parking coming into effect.

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 2022 assessment, a 50% discount to the excess land rate was applied.*

Parking requirements for calculating the amount of surplus land for Neighbourhood, Power Centre, and Box Retail properties were determined using the Edmonton Zoning Bylaw No. 12800 in effect on July 1, 2020, prior to Open Option parking coming into effect.

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.

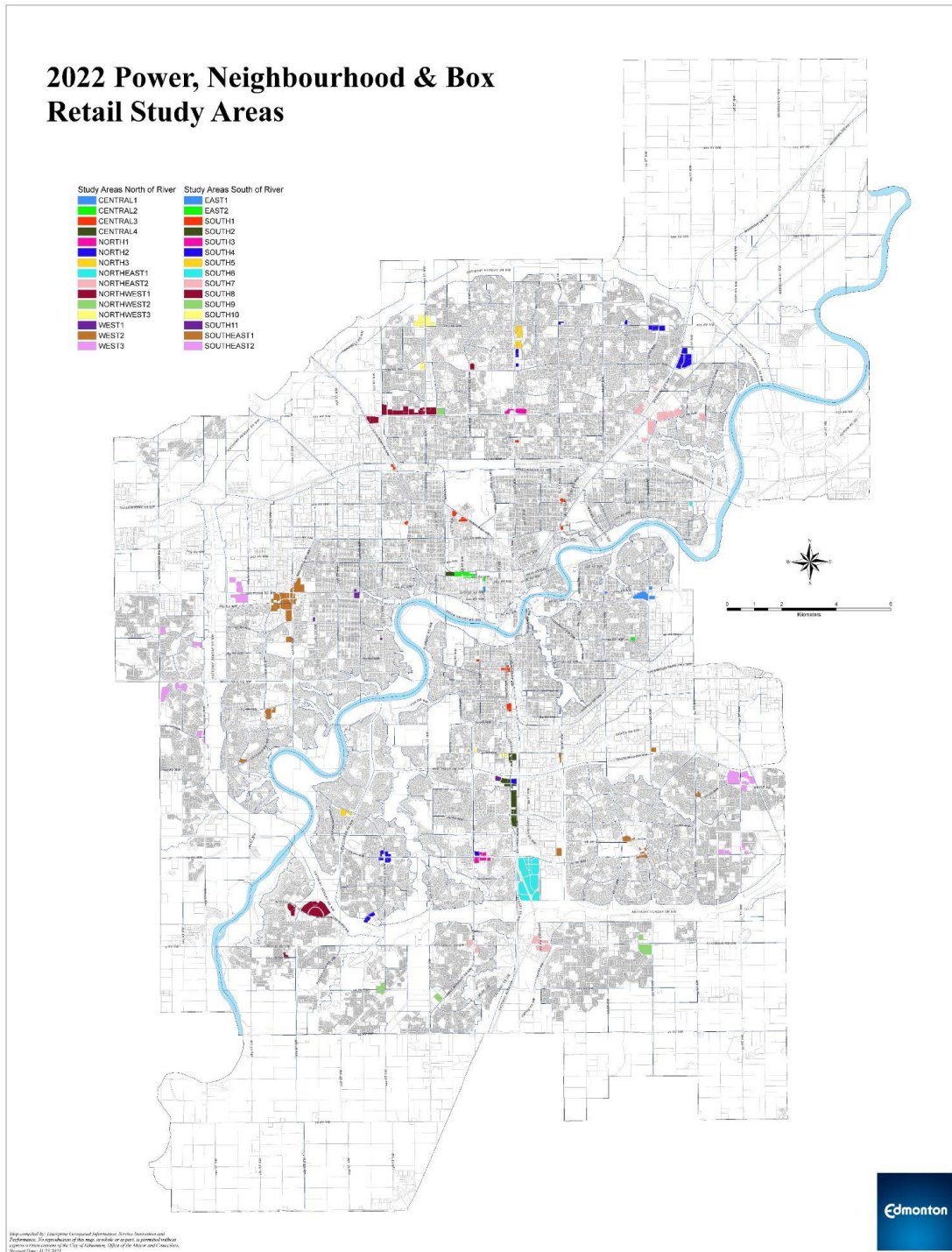
Effective zoning is applied to reflect the current use and development of a parcel. The effective zoning may differ the actual zoning when current use differs from that which is permitted by the actual zoning as updated by Edmonton Zoning Bylaw 12800 (ie. legal nonconforming use).

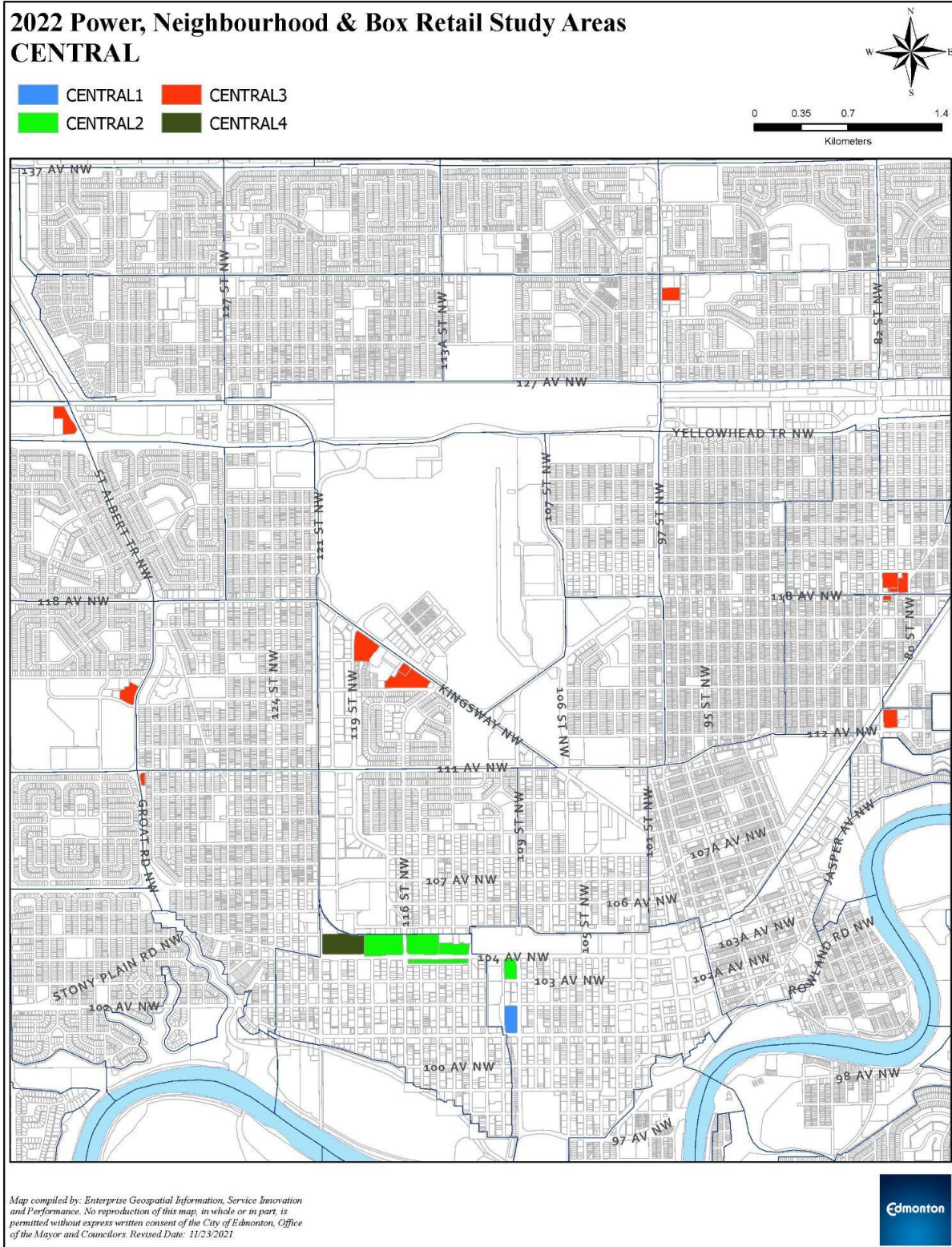
Land Use Code defines the use of a property. The amount of a property subject to any specific Land Use will be expressed as a percentage (%). Land Uses may be used for administrative reasons and are not used in the valuation of Neighborhood, Power & Box Retail Inventory.

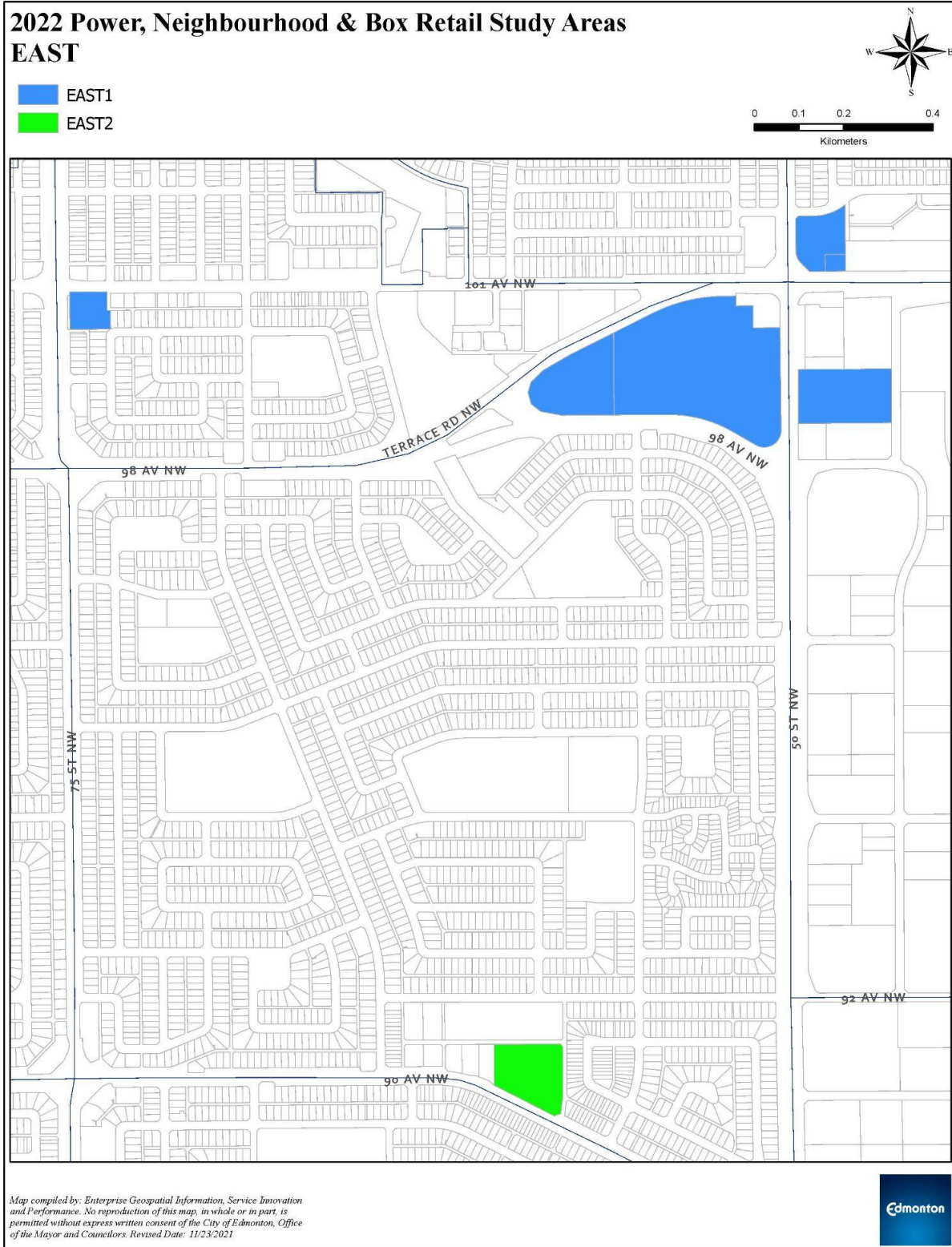
References

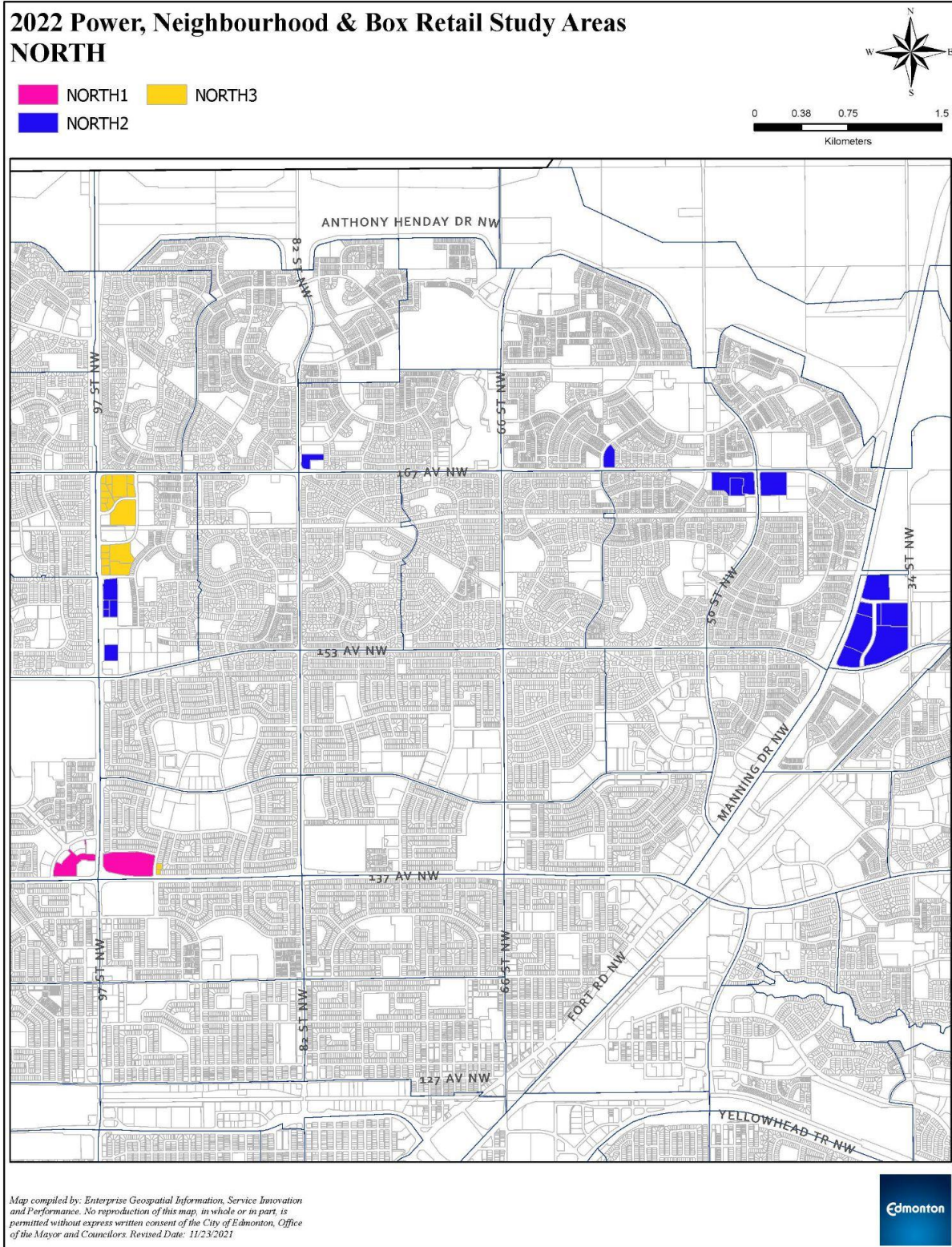
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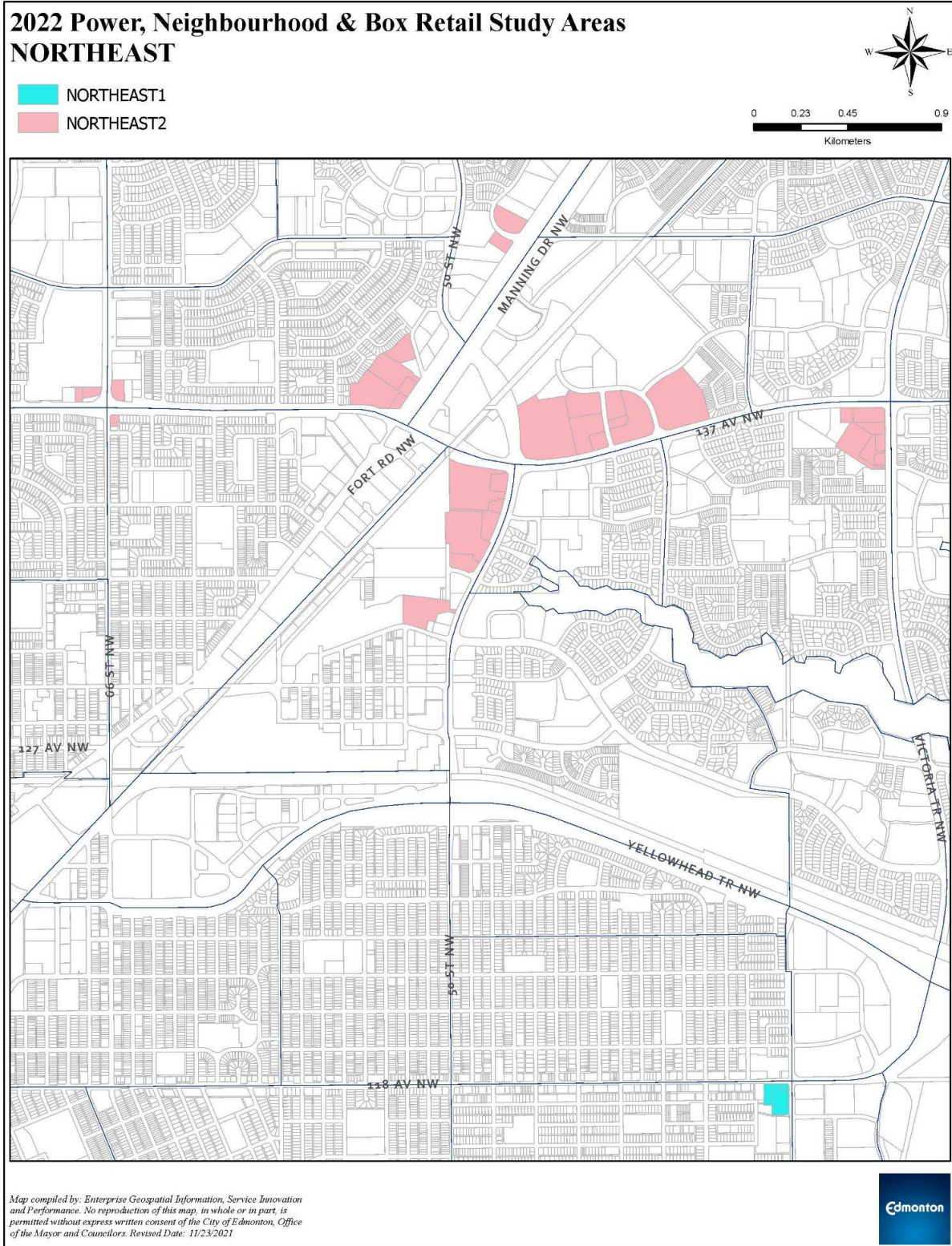
Study Area Maps

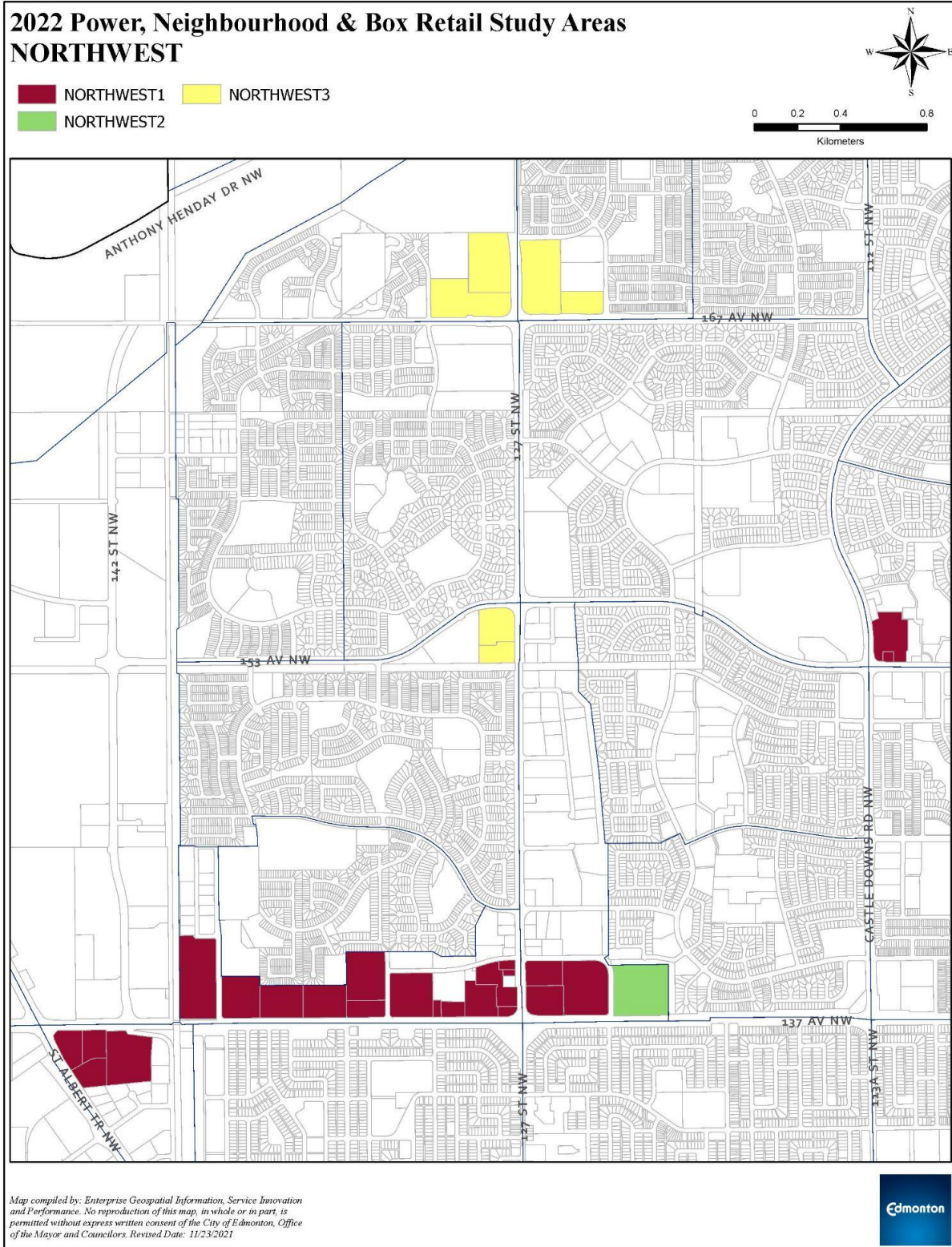


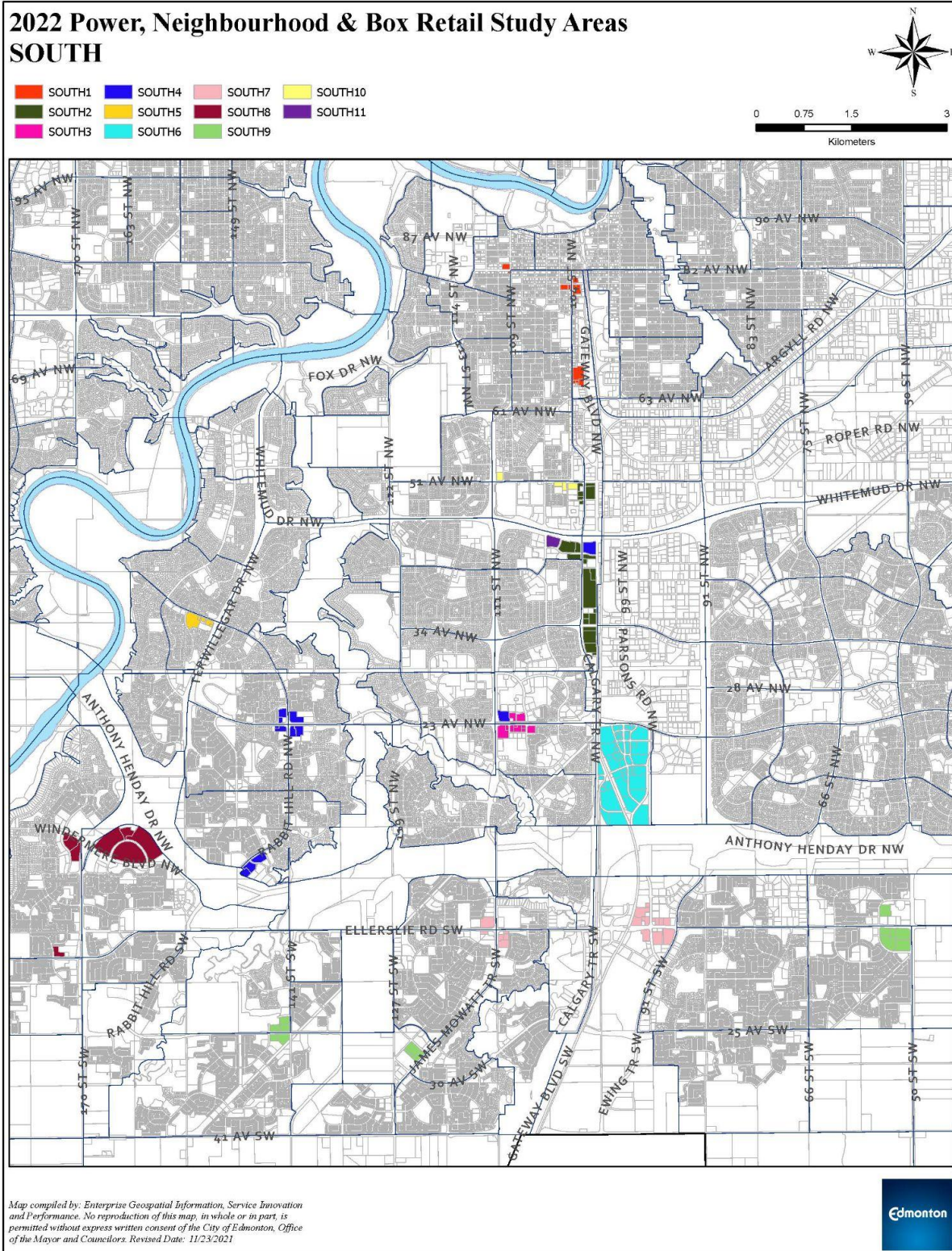


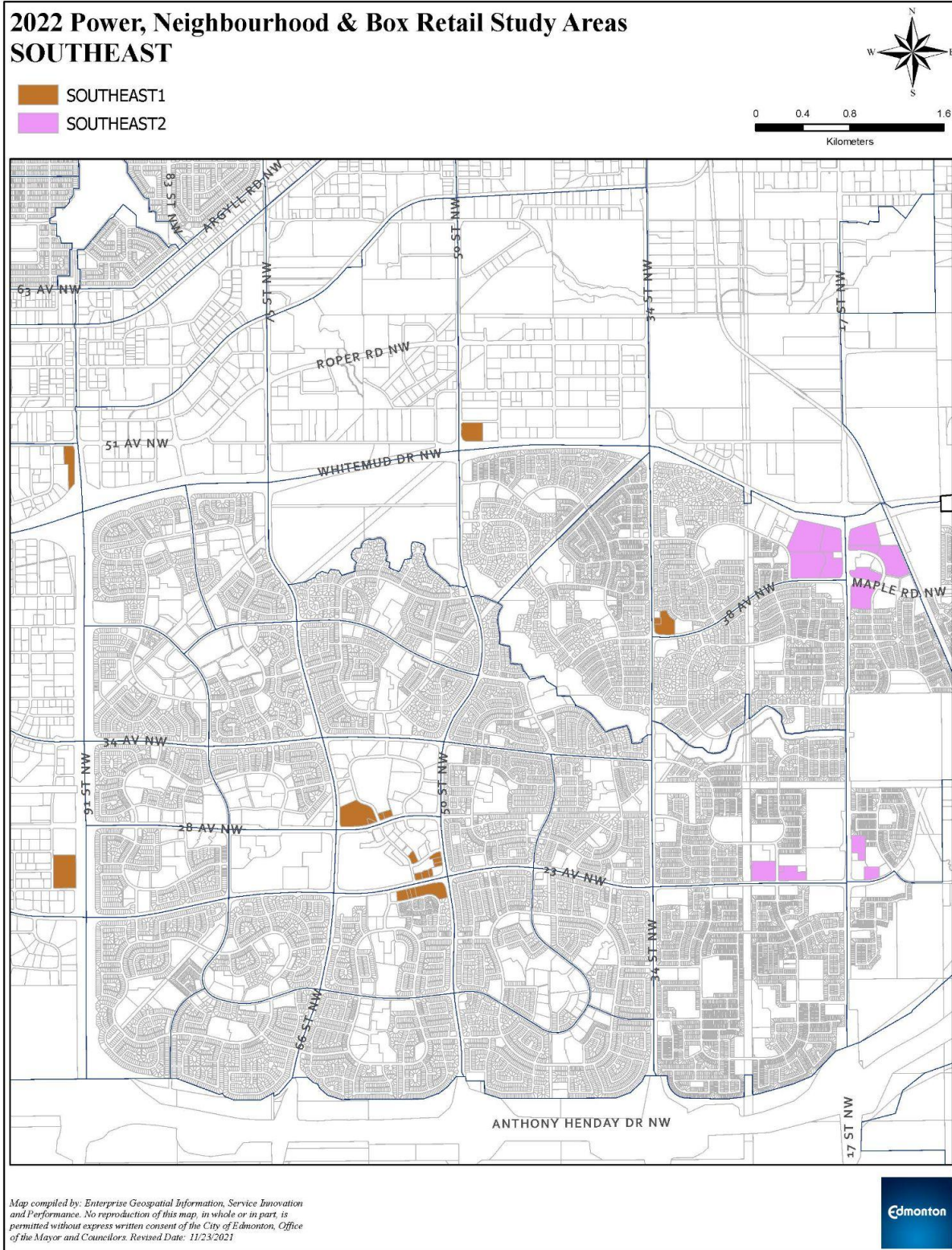


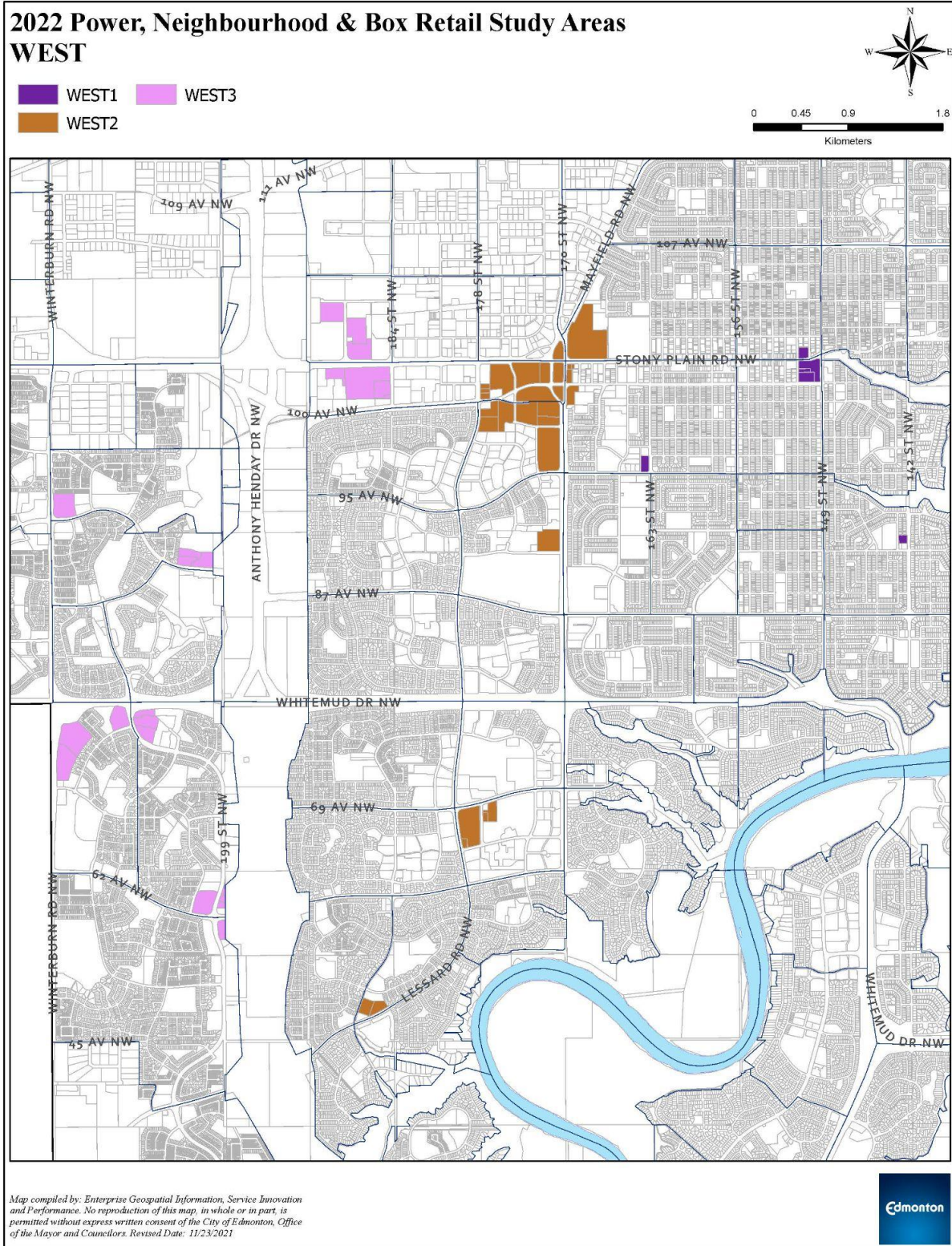












Time Adjustment Factors

YEAR	MONTH	ADJUSTMENT	YEAR	MONTH	ADJUSTMENT
2016	Jul	0.8507	2019	Jan	0.8507
2016	Aug	0.8507	2019	Feb	0.8507
2016	Sep	0.8507	2019	Mar	0.8507
2016	Oct	0.8507	2019	Apr	0.8507
2016	Nov	0.8507	2019	May	0.8507
2016	Dec	0.8507	2019	Jun	0.8507
2017	Jan	0.8507	2019	Jul	0.8507
2017	Feb	0.8507	2019	Aug	0.8507
2017	Mar	0.8507	2019	Sep	0.8507
2017	Apr	0.8507	2019	Oct	0.8507
2017	May	0.8507	2019	Nov	0.8576
2017	Jun	0.8507	2019	Dec	0.8646
2017	Jul	0.8507	2020	Jan	0.8716
2017	Aug	0.8507	2020	Feb	0.8787
2017	Sep	0.8507	2020	Mar	0.8858
2017	Oct	0.8507	2020	Apr	0.8930
2017	Nov	0.8507	2020	May	0.9002
2017	Dec	0.8507	2020	Jun	0.9075
2018	Jan	0.8507	2020	Jul	0.9148
2018	Feb	0.8507	2020	Aug	0.9223
2018	Mar	0.8507	2020	Sep	0.9298
2018	Apr	0.8507	2020	Oct	0.9373
2018	May	0.8507	2020	Nov	0.9449
2018	Jun	0.8507	2020	Dec	0.9526
2018	Jul	0.8507	2021	Jan	0.9603
2018	Aug	0.8507	2021	Feb	0.9681
2018	Sep	0.8507	2021	Mar	0.9760
2018	Oct	0.8507	2021	Apr	0.9839
2018	Nov	0.8507	2021	May	0.9919
2018	Dec	0.8507	2021	Jun	1.0000