



Valuation Guide
Shopping Centres

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Shopping Centre Valuation Guide

1.0 Introduction

A shopping centre is a collection of retail outlets located on one property that offers a variety of goods for sale. This type of property ranges in size, type of merchandise, age and construction materials.

Shopping centres return revenues to their owner(s) in the form of rents or other scheduled payments. They are typically purchased for investment purposes. Therefore, a property's earning power is the critical element affecting its value from an investment point of view. Earning power is a function of the expected income from a centre, the growth in that income stream, and the risk associated with the income. All these conditions affect how the market views a shopping centre property and its market value.

1.1 Types of Shopping Centre Properties covered in this Valuation Guide

The methods described in this valuation guide are designed to suit the following types of properties:

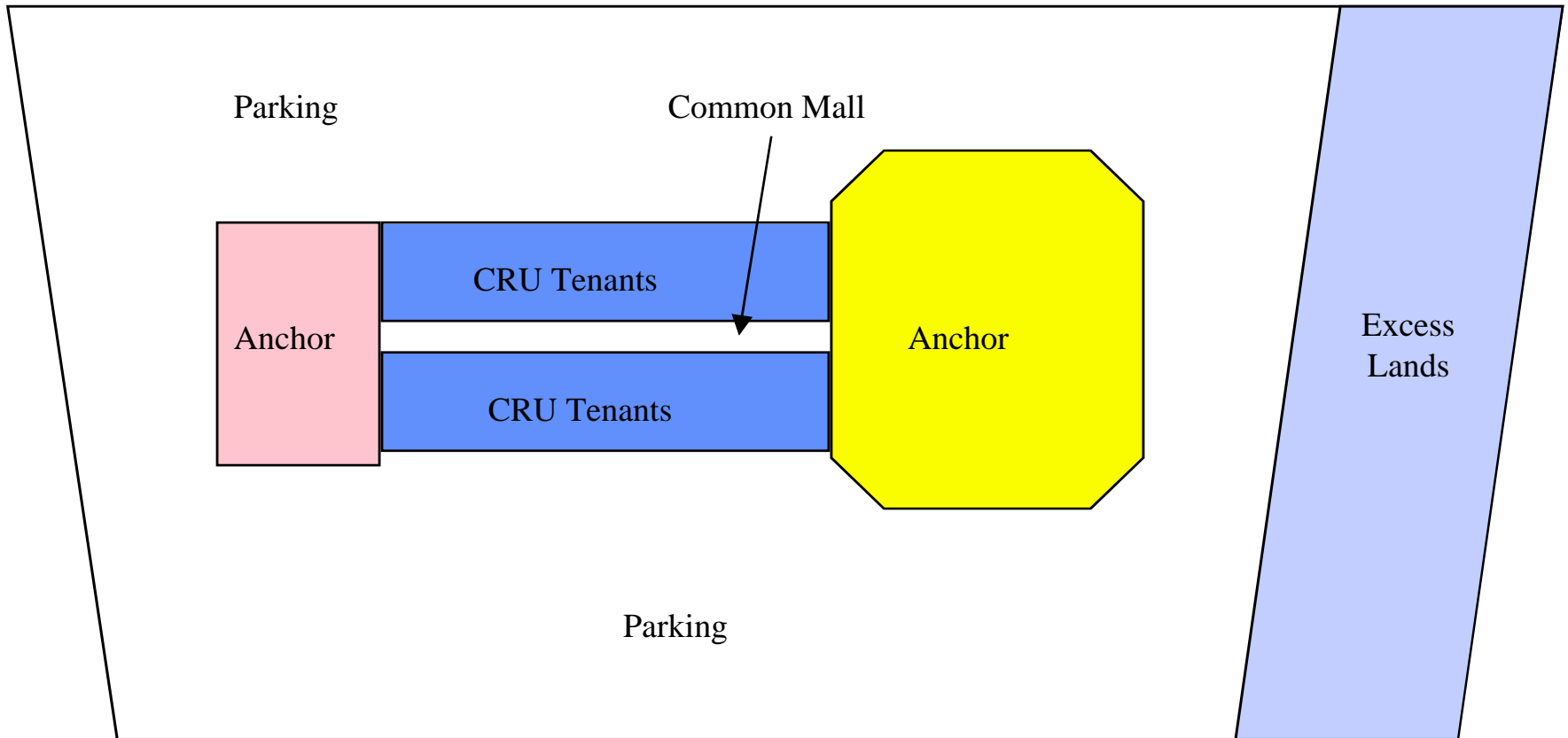
- **Neighbourhood shopping centres.**
- **Community shopping centres.**
- **Regional & super-regional shopping centres.**
- **Power centres.**

The methods presented here may be applicable to other types of commercial properties, such as strip-malls, but the valuation guide does not directly address any other type of property.

1.2 Scope of Valuation Guide

- This valuation guide is designed as an aid in the valuation of shopping centre properties for assessment purposes.
- It sets out an income approach procedure to derive market values.
- With the accompanying Rent Analysis Form and Valuation Summary Form spreadsheets, the valuation guide provides a practical tool to evaluate and summarize rent roll and income expense information obtained from shopping centre owners.
- The attached schedules provide the guidelines and valuation parameters that can be used to establish market values for shopping centres as of various valuation dates.
- The valuation guide is intended as a tool to aid the assessor; it is not intended to replace the assessor's judgment in the valuation process.
- The method presented in this valuation guide is aimed at deriving values for a range of shopping centres with typical attributes and conditions. Where some range and latitude are provided in the application of valuation parameters, the approach does not cover every circumstance that may arise in the market place.

Figure 1: Shopping Centre Schematic



2.0 *Analysis of Valuation Approaches*

2.1 Approaches

Market Sales Comparison

The sale of a shopping centre is a good indicator of the value of that centre to the owner. However, other than demonstrating capitalization rates, shopping centre sales have some weaknesses in the assessment environment:

- The sale price reflects the value of the actual expected income to the owner, which may or may not reflect all fee simple interests in the property. Therefore, a market sale provides some inferences as to the value of the subject but this figure may be different than the appropriate assessment value reflecting a fee simple condition.
- The result of one sale is not necessarily transferable to other properties. Due to differing tenant mixes, retail sales performances, and lease conditions, the sales value of one centre may not reflect the expected value of another shopping centre. Again, some insights and benefits can be gained from a sale of a similar property; however, careful analysis of the sales performance and lease conditions of each centre would be required before appropriate market value conclusions can be drawn for other shopping centres.

Income Approach

Shopping centre properties generate rental income and such income can usually be defined in terms of income attributable to the real estate. Therefore, the income approach is a useful tool to determine market values of shopping centres.

Cost Approach

In order for a cost approach to work well in the shopping centre environment, it would be necessary to make appropriate adjustments to the depreciation, obsolescence and land value of a centre every valuation year and, for obsolescence and land values such adjustments may be up or down.

Furthermore, establishing the appropriate land values for a shopping centre is often a difficult exercise because it is not often that large vacant commercial-retail properties trade on the market.

2.2 Recommendation

Because shopping centres are bought, sold, and developed on the basis of their expected income, the income approach to value reflects the manner in which the market views these properties. Since the income approach applies well to mass appraisal applications the following recommendation is made:

In the assessment of properties in Alberta, the income approach is recommended as the primary approach to be used in the valuation of shopping centre properties.

The theory behind the income approach to value is that property values reflect the present worth of anticipated or forecast future benefits from the real estate. As such, the income approach analyses the income and expenses of a shopping centre and converts the net revenue into an estimate of market value.

2.3 Application of the Income Approach

Income Approach Methods

In general there are two methods available to convert future income into a present value:

- A direct capitalization method¹, and
- Discounted cash flow analysis.

Either type of analysis recognizes that money has a “time value”, i.e., that given a choice people would rather receive \$100 today than \$100 one year from now. However, some people would rather receive \$110 (\$100 + 10 percent) in one year rather than \$100 today. The interest rates applied to convert future dollars to “cash in the pocket” today reflect the time value of money.

¹ Re: Campeau Developments Ltd. and the Regional Assessment Commissioner Region No. 29 (1982) 144 D.L.R. (3d) 632 (C.A.) Leave to appeal to S.C.C. refused 51 N.R. 154 m.

British Columbia v. 359042 B.C.Ltd. [1997] BC No. 1459

The valuation technique commonly used by assessors across Canada is based upon the direct capitalization method. It is widely accepted as a mass appraisal technique and under existing jurisprudence². Also, it is relatively easy to use.

The valuation method presented here employs the Direct Capitalization method.

Overview of the Direct Capitalization Method

The analysis in this section presents a direct capitalization method that is suited for mass appraisal applications. Therefore the analysis focuses upon typical shopping centre properties.

Direct capitalization converts or “capitalizes” the expected level of current net earnings into an estimate of market value using a capitalization rate. Therefore, the conversion factor or capitalization rate is a reflection of all of the investor’s relative and comparative feelings and aspirations about the property in light of the investment characteristics offered by the asset and in comparison to other investment opportunities on the market.

In its most basic form, the direct capitalization method is a mathematical ratio involving the estimation of current net operating income (NOI), which is then capitalized into value to produce an estimate of current market value. The overall capitalization rate captures the return of and return on investment.

² Bramalea Ltd. v. British Columbia Assessor Area # 9, Vancouver (1990) 76 D.L.R. (4th) 53. (C.A.) Leave to appeal to S.C.C. refused 79 D.L.R. (4th) vi. 135 N.R. 318 m.

The Direct Capitalization Method

Market Value	=	$\frac{\text{Net Annual Operating Income}}{\text{Capitalization Rate}}$	V	=	$\frac{\text{NOI}}{\text{R}}$
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For example NOI = \$100,000

 Cap Rate (R) = 10%

 Market Value = \$100,000 ÷ 0.10 = \$1,000,000

Although there are other methods of converting expected future income into an estimate of current value (e.g., discounted cash flow); the direct capitalization method is the one that lends itself to mass appraisal applications. It is possible to ascertain market values under this formula through proper evaluation of the expected net income and through the selection of an appropriate capitalization rate. However, it is difficult to achieve accuracy with the direct capitalization method due to the number of investment characteristics that must be evaluated within the selection of the overall capitalization rate, and due to the fact that the value outcome is predicated upon a “snapshot” of the expected income that will be produced from the property.³

The capitalization rate employed in the valuation of a shopping centre must also reflect the investment characteristics of the property in comparison to other similar investment opportunities in the market.

In establishing the appropriate market values using the income approach, the objective is to evaluate the income generated by the real estate. For shopping centres, this task is simplified by the fact that leases are typically established on a net, net, net basis. This factor serves to limit the amount of adjustments required in order to determine the net operating income attributable to the real estate.

³ Manufacturers Life Insurance Co. v British Columbia [1996] B.C.J. No. 3046 p.14

2.4 Practical Valuation Process

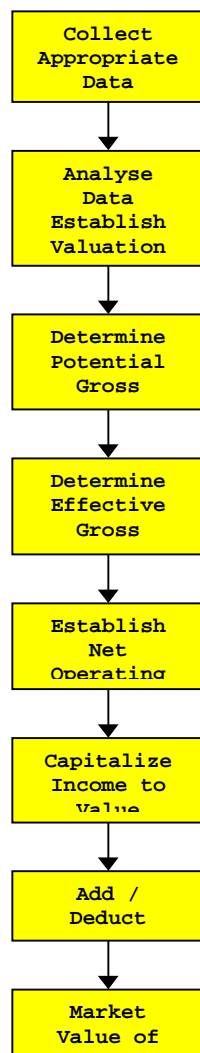
In this valuation guide the direct capitalization model has been developed into a practical valuation tool utilizing spreadsheets.

Guidelines and instructions on:

- use of these spreadsheets,
- collecting the data,
- analysis of information,
- development of the valuation parameters,
- the estimation of market value, and
- controlling the quality of assessment values

follow in section 3.0 of this guide.

3.0 Steps in the Valuation Process



3.1 Overview of the Procedure

- 1) **Collect appropriate information.**
- 2) **Analyze data and establish valuation parameters.**
- 3) **Determine the potential gross income (PGI):**

- Establish **market rents** for all anchor and ancillary tenant space in the subject property.
- Multiply gross leasable area (GLA) by the market rent to determine **PGI** to the owner.

$$\text{PGI} = \text{GROSS LEASABLE AREA} \times \text{MARKET RENT}$$

- 4) **Determine effective gross income (EGI):**

- Convert PGI into an estimate of **EGI**, through appropriate deductions for vacancies and bad debts.
- Add miscellaneous or other income as indicated from the expense statement.

$$\text{EGI} = \text{PGI} - \text{VACANCY AND BAD DEBTS} + \text{OTHER INCOME}$$

- 5) **Establish net operating income (NOI):**

- Make appropriate deductions for vacancy shortfall and the landlord's non-recoverable management expenses.

$$\text{NOI} = \text{EGI} - \text{VACANCY SHORTFALL} - \text{NON-RECOVERABLE EXPENSES}$$

- 6) **Capitalize NOI into value.**

$$\text{VALUE} = \text{NET OPERATING INCOME} \div \text{CAPITALIZATION RATE}$$

- 7) **Add excess land and any other value to produce: MARKET VALUE OF THE PROPERTY.**

How the Approach Works

Start with Net Market Rents⁴

The analysis undertaken in this procedure starts from the premise that net market rents can be identified for all tenants. The use of net market rents in this analysis means that very few adjustments are required to determine the market value of the real estate.

Adjustment for:

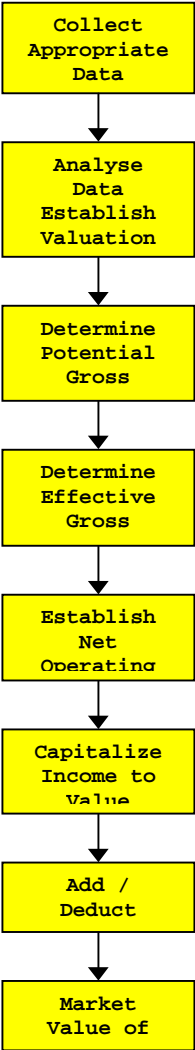
- Vacancy and bad debt.
- Vacant space shortfall.
- Non-recoverable management expenses.

Produces a value attributable to the real estate.

The use of net market rents also means that non-real estate factors such as:

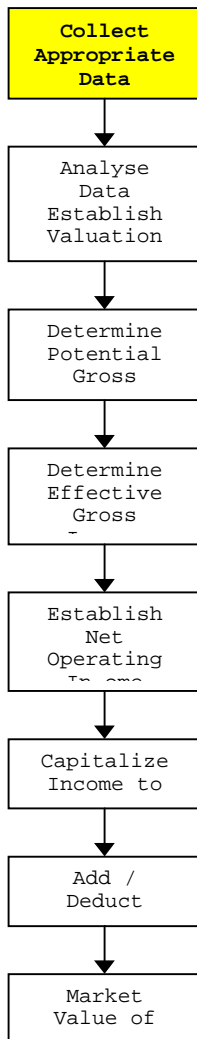
- CAM contributions, and
- Property taxes.

Do not enter the calculations except in the determination of net market rents.



⁴ *A. Mekur & Sons Ltd. v. Ontario (Regional Assessment Commissioner, Region No. 14)* (1977) 91 D.L.R. (3d) 764 (CA). Leave to appeal to S.C.C. refused 26 N.R. 264. . See also *Canadian Plaza Ltd. and Regional Assessment Commissioner Region no. 19* (1985) 15 D.L.R. 4th 156.

3.2 Collect the Appropriate Data



The first step in the process is to make sure that there is enough information to value the property.

In order to assess a property the necessary information must be available. Much of the information required for shopping centre valuations can be obtained from a copy of the rent roll and the shopping centre income and expense statements. However, other information will be needed in order to derive appropriate assessments. To complete the valuation task the assessor should collect the following information:

1. Actual information from owners and taxpayers on;
 - Gross leasable areas (GLA) for all tenants,
 - Base rents,
 - Overage rents,
 - Other income,
 - Inducements,
 - Vacancies,
 - Common area charges, and
 - Unrecovered expenses.
2. Examples of current leases.
3. Information on sales of shopping centres.
4. Inspect property to comment on;
 - Shopping centre & tenant quality,
 - Vacancies,
 - Land use / excess land,
 - Extraordinary features,
 - Parking,
 - Access and egress,
 - Customer activity / shopping patterns, and
 - Interview owners and/or managers.
5. Review zoning information and market characteristics.

Request for Information Form

In order to facilitate the valuation process a Request for Information Form has been included in section 6.1 - Appendix A.

Other Sources of Current Market Information:

- Consultants.
- Real Estate publications, e.g., *Dollars and Cents of Shopping Centres*.
- Assessment appeal reports.
- Shopping centre guides and directories, e.g., *Canadian Directory of Shopping Centres*.
- Industry associations.

Issues to Consider in the Collection of Data

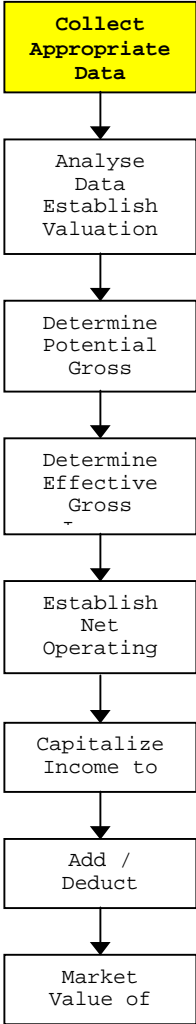
Non-standardized Rent Rolls

There is no standardized format for rent rolls. Some rolls may only contain basic “face” rent and GLA information while others include details of rents, terms, CAM, and tax and overage payments. Furthermore, some rolls may indicate the monthly payments while others indicate the annual rental rates.

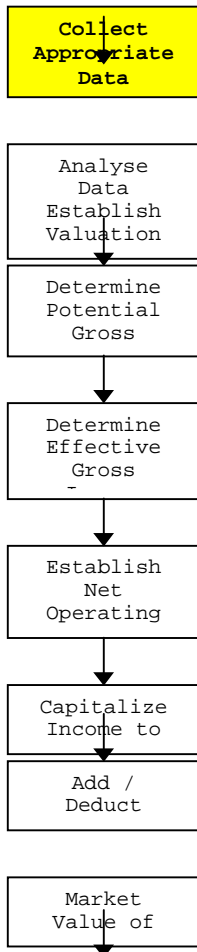
The objective is to convert all figures into (annual) rents per square foot of GLA so that these figures may be used and compared to rents in other similar shopping centres.

Relevant Income

Income and expense statements are also presented in a variety of formats. In this valuation procedure the only income required from such statements is that which falls under the “other income” or “miscellaneous income” category. Reference may also be made to basic and overage rents in order to assist in the determination of market rents at the centre. Do not include the amounts collected that go toward common centre expenses, taxes, advertising, merchants associations, or CAM in the tabulation of net income unless they in some manner affect the amount of income made by the owner after expenses are paid.



Relevant Expenses



In the shopping centre valuation process the income and expense statement should be reviewed to establish common area maintenance (CAM) costs at the shopping centre. Expenses are generally separated into a number of categories including:

- a) “Recoverable” expenses which determine the common area maintenance fees (excluding taxes), and
- b) “Non-recoverable” expenses that form part of the unrecovered costs of operating the shopping centre.

There are two points to be aware of when reviewing expense items:

1. As part of their CAM contribution tenants are usually charged an administration fee which goes to pay for shopping centre management and supports the “business value” of the enterprise. Typically this fee is a 15 percent surcharge on the CAM contribution.
2. Expense items such as mortgage interest, debt service, loan interest and depreciation do not form part of the net income calculation for valuation purposes.

Figure 2: Example of Actual Rent Roll

SHOPPING CENTRE: XYZ Mall
 LOCATION: My Town
 TENANT LEASE SUMMARY AS OF : JULY 01, 1992

UNIT No.	TENANT	TRADE NAME	COMM DATE			EXPIRY DATE			LEASED AREA	RENT PER SQ.FT
L101	CALDERONE SHOE CO. LIMITED	CALDERONE	88	10	3	98	10	31	3,214	40.00
L104	DALMYS (CANADA) LIMITED /	ANTELS	88	10	3	98	10	31	6,665	43.00
L105	COLES BOOK STORES LIMITED	ACTIVE MINDS...COLES FOR KIDS	88	11	1	98	10	31	2,214	30.00
L106	SCI-TECH EDUCATIONAL INC.	THE NATURE STORE	91	11	15	1	10	31	1,549	40.00
L107	945150 ONTARIO LIMITED	WALL STREET	91	10	1	1	9	30	1,314	50.00
L108	BEDO RETAIL STORES INC.	BEDO	88	10	3	93	3	2	2,176	40.00
L109	712570 ONTARIO LTD.	MELROSE	92	6	1	97	5	31	869	0.00
L110	G. WALIA HOLDINGS LTD.	NORMA REED	88	10	3	98	10	31	2,135	30.00
L111	BIKINI VILLAGE INC.	BIKINI VILLAGE	88	10	3	96	10	31	2,073	40.00
L112	389194 ONTARIO LTD	SPATARO'S HAIR STYLING	88	10	3	98	10	31	1,042	45.00
L113	THE TORONTO DOMINION BANK LTD.	TD BANK/ATM	88	10	3	98	10	31	514	35.00
L114	SIVEX HOUSEWARES ENTERPRISES	SILVER DOLLAR	92	4	11	99	4	30	2,071	20.00
L115	LIQUOR CONTROL BOARD OF	L.C.B.O.	89	2	1	99	1	31	6,273	31.00
L115	LIQUOR CONTROL BOARD OF	L.C.B.O. - STORAGE	89	2	1	99	1	31	4,771	10.00
L116	HENRY BIRKS & SONS LIMITED	OSTRANDER'S JEWELLERS	88	10	22	93	1	10	1,523	60.00
L118	STRAUSSCO HOLDINGS LTD	STAR MEN'S WEAR	91	8	1	94	3	31	1,556	40.00
L119	MOPET INVESTMENTS LIMITED	AQUARIUM TORONTO	88	11	11	98	11	30	1,513	40.00
L119	KINNEY CANADA INC.	CHAMPS	88	10	3	98	10	31	3,233	45.00
L120	ST. CLAIR PAINT LTD &	ST. CLAIR	88	11	2	93	4	23	1,773	34.00
L121	COUNTRY STYLE REALTY LIMITED	COUNTRY STYLE	92	4	15	97	7	31	1,466	0.00
L122	JAPAN CAMERA CENTRE LIMITED	JAPAN CAMERA	88	11	4	98	11	30	1,216	80.00
L123	ABERDEEN FLORIST	ABERDEEN FLORISTS	88	11	20	93	2	19	1,128	50.00
L124	ELFIN INVESTMENTS LIMITED	BROWSER'S NOOK	92	5	7	2	5	31	1,128	30.00
L125	ONTARIO HYDRO	YOUR HYDRO STORE	88	11	2	93	1	31	1,153	45.00
L126	BELL CANADA	BELL PHONE CENTRE	88	11	7	95	11	30	1,248	55.00
L127	VACANT UNIT	VACANT (STORAGE)	90	4	16	98	10	31	320	0.00
L128	BIG MALL FURNISHING LTD.	CHAIR PLACE	92	6	1	92	12	1	4,412	0.00
L129	975513 ONTARIO LTD.	TREATS	88	11	2	95	11	30	408	75.00
L130	EVERBEST BAKERY (FAIRVIEW) LTD	EVERBEST BAKERY	92	6	1	93	12	9	750	0.00
L131	KINNEY CANADA INC.	FOOTLOCKER	88	11	10	98	11	30	1,880	40.00
L132	PANTORAMA INDUSTRIES INC./	PANTORAMA	88	11	2	98	11	30	1,621	50.00
L133	GERRY LEWIS LIMITED	LEWISCRAFT	88	11	2	98	11	30	1,621	45.00
L134	JOBA MANAGEMENT LIMITED	JOSEPH'S	88	11	1	98	10	31	1,621	40.00

Figure 3: Example of Actual Income & Expense Statement

XYZ Mall

INCOME AND EXPENSE REPORT

12 MONTHS ENDING OCT. 31/92

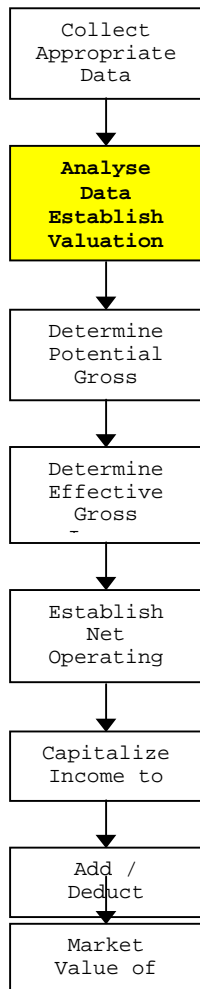
RENTAL INCOME

RENTAL INCOME - BASIC		\$11,011,216
OFFICE RENT		\$67,674
PERCENTAGE RENT		\$17,629
RENT - PAYMENT DEFERRED		\$245,908
STORAGE RENT		\$76,188
TERMINATION FEES		\$175,544
OTHER RENT		\$57,059
HVAC BASIC CHARGE		<u>\$365,437</u>
RENT		\$12,016,654
PERCENTAGE RENT		\$102,418
RECOVERIES - OTHER		\$2,322,387
RECOVERIES - REALTY TAXES		\$3,098,081
MISCELLANEOUS		\$30,494
TOTAL RENTAL INCOME		\$17,570,034

OPERATING EXPENSES

INSURANCE		\$45,741
OPERATING		\$316,057
MAINTENANCE		\$1,036,119
CLEANING		\$318,634
UTILITIES		\$622,409
ADMIN-RECOVERABLE		<u>\$110,333</u>
RECOVERABLE EXPENSE		\$2,449,294
REALTY TAXES		\$3,173,624
MANAGEMENT FEES		\$437,508
LEASING	\$33,180	
PROMOTION	\$97,792	
ADMIN(NON-RECOVERABLE)	\$357,654	
ADMIN & MARKETING		\$488,626
		\$6,549,052
NET CONTRIBUTION		\$11,020,982

3.3 Analyze the Data and Establish Valuation Parameters



One of the objectives of a mass appraisal valuation program is the ability to work quickly and efficiently while deriving accurate and appropriate market values.

Types of Shopping Centres

One way to accomplish this end is to set up a range of valuation parameters that apply to a number of standard types of shopping centres found in Alberta, e.g.,

- Regional and super regional centres.
- Community centres.
- Neighbourhood centres.
- Power centres.

Valuation Parameters

After collecting the data, the information should be analyzed to produce a range of rents for different tenant types, vacancy rates, expense rates and capitalization rates for each type of centre. The following schedules need to be developed. (See Figure 4 for examples of Schedules III -VI and see section 6.2 for examples of Schedules I & II.)

Schedule	Information by Type of Centre
I	Base Rent Ranges by Tenant Class
II	Common Area Maintenance Charges
III	Vacancy Allowances
IV	Unrecovered Operating Expense
V	Vacant Space Shortfall
VI	Capitalization Rates

Establishing valuation parameters by type of shopping centre achieves two objectives:

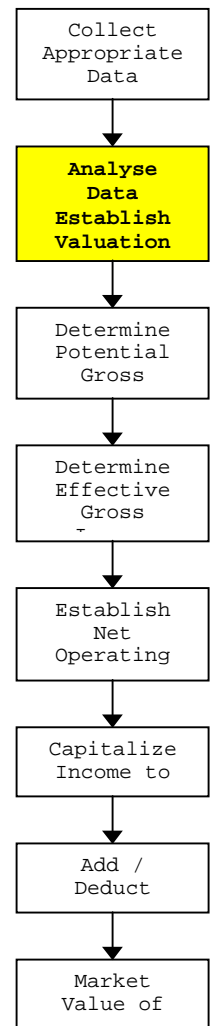
1. The valuation parameters provide guides for the assessor in establishing the values of various types of shopping centres - especially where the property owner has not provided any information.
2. The provision of ranges will provide some uniformity of standards in the valuation of shopping centre properties throughout Alberta.

Lease Analysis

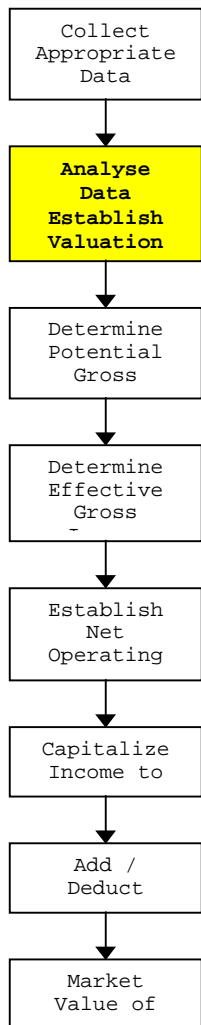
There are several key elements to a lease between landlord and tenant:

- The quality, location and incentives given to the tenant in respect of the moneys paid. For example, there may be cash incentives or free rent, or the rent may include services, appliances, or furniture.
- The type of rental payment may range from fixed payments, step-up leases where rents are raised (or lowered) on a set schedule over a period of months or years, and/or leases based upon sales performance (overage rent).
- The term of the lease or the number of years (or months) it is expected to run and the various renewal options.
- The operating expenses that are expected to be met by the tenant, e.g., power, heat, interior maintenance, snow removal, etc. In addition, the lease may describe the rights of the tenant to review, question or appeal these expenses.

There are many individual factors contained within each lease. The importance of recognizing the differences between leases arise both in the analysis of value and in the comparison of value from one property to another.



Classifying the Centre



Once the information has been analyzed and the valuation parameters have been set up, the next step in the valuation process is to identify the type of centre being valued.

The assessor can match the attributes of the subject shopping centre to the typical attributes and valuation parameters found in similar centres to assist in the derivation of market value.

This information will assist in the selection of valuation factors such as vacancy, expense and capitalization rates. In addition, if rent rolls and lease information are unavailable, the rent ranges will also help the assessor to establish the appropriate current market rents for particular tenants.

To assist with the determination of the valuation parameters to be applied in the direct capitalization valuation process of a shopping centre each property should be compared to the typical shopping centre of the same type.

If the subject centre is superior to the typical centre, rents toward the higher end of the range provided on Schedule I should be used. Also, vacancy allowances and capitalization rates toward the lower end of the ranges provided in Schedules III and VI respectively, may be warranted. Conversely, if the subject shopping centre is inferior to the typical centre, lower rents and higher vacancy and capitalization rates could be applied.

Issues to Consider - Valuation Parameters

No matter how the information is reported, the objective is to establish all valuation parameters on the same basis, i.e., annual market rent per square foot of GLA. However, some issues may arise in the analysis of this data.

Availability of Comparable Information

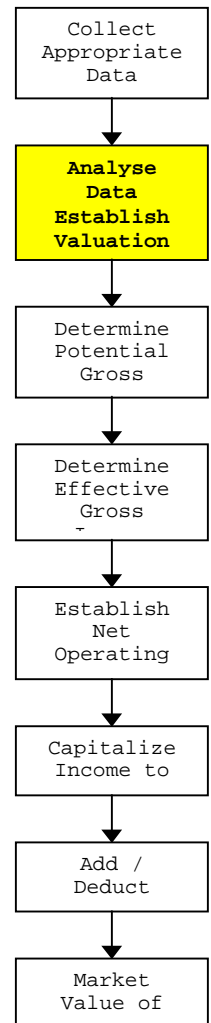
Relevant information may not be available in all instances to establish appropriate parameters. For example very few full-line department store leases have been signed over the past few years. The objective is to explore the information database as far as practical to be satisfied that the parameter (or lack of parameter) is a reasonable conclusion. Therefore, if there is no information available concerning current year department store leases, there may be some from the two previous years.

Tendency towards Median Parameters

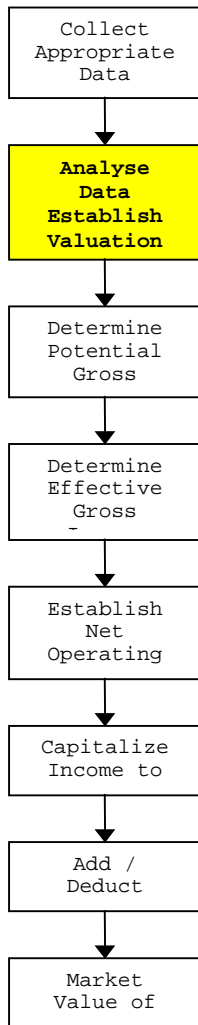
There may be a tendency by assessors to input the median parameter in the shopping centre valuation process. In many instances, this may be the appropriate approach to value that particular property. However, no set of parameters is designed to replace the assessor's judgment and, just as all buildings are not furnished with marble and gold bathroom fixtures, not all shopping centres should be valued at the middle of the range.

Valuing with Parameters Outside the Ranges Provided

If, in the opinion of the assessor, the property is to be valued with a parameter that is outside the range, a comment should be made in the assessment report as to why.



Non-Real Estate Issues



The objective of the assessment process is to arrive at the fee simple value of the real estate. Such value should not be affected by the performance of management – good or poor, but should be based upon the typical conditions in the market place. For example, a reasonable assumption in this regard would be that larger shopping centres typically possess reasonably competent management.

The valuation of a property for assessment purposes should attempt to limit the influence of non-real estate issues. However, it is possible that factors such as excessive vacancy are beyond the control of the owner and therefore must be recognized in the valuation process.

Typical Base Rents by Class of Tenant

Along with vacancy, expense, and capitalization factors, Schedule I of the valuation parameters provide typical base market rent ranges by tenant class. Such tenant classes may be as detailed as those found in *Dollars and Cents of Shopping Centers*, or they may be broad general categories. The finer the detail in classifying tenants, the more lengthy the job and the harder it may be to fill-in the blanks for rental rates in all tenant classes. However, the finer the detail, the more applicable the parameter between properties.

Further discussion of market rents can be found in section 3.4.

Vacancies

Vacancies reflect the amount of space that is typically vacant in a type of shopping centre. However, not all categories of tenants experience the same vacancy conditions. Therefore, up to three types of vacancy rates may be required in the valuation procedure:

- Vacancy rates for major tenants,
- Vacancy rates for CRU (retail) tenants, and
- Vacancy rates for other (office) tenants.

A vacancy rate is the ratio between the amount of vacant space and the total GLA of that category of tenant. For example,

$$\begin{aligned} \text{CRU VACANT SPACE} &= 11,145 \text{ SF} \\ \text{TOTAL CRU GLA} &= 126,725 \text{ SF} \\ \text{CRU VACANCY RATIO} &= 11,145 / 126,725 = 8.8\% \end{aligned}$$

Establishing Common Area Maintenance Charges

CAM charges reflect the costs of operating the interior and exterior common areas of a shopping centre and therefore include expenses of the following nature:

- Maintenance
- Operation
- Cleaning
- Utilities
- Heating
- Insurance
- Admin - recoverable
- Garbage removal
- Snow removal
- Management Fees

In a shopping centre operating on net leases, CAM charges reflect all recoverable expenses. In centres where there is a mix of gross, semi-gross, and net leases, all rental rates should be adjusted to a net basis by the appropriate deduction for CAM and/or taxes.

Actual CAM charges for a shopping centre can be established through Rent Rolls and Income & Expense Statements. Typical CAM charges for various types of centres can be found from such sources as *Dollars and Cents of Shopping Centers*.

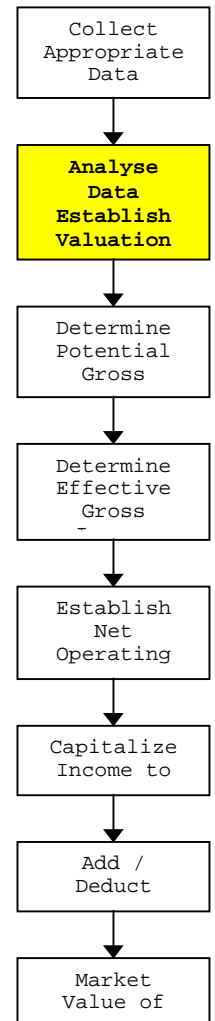


Figure 4: Example of Shopping Centre Valuation Parameters - 1996

These numbers are for illustrative purposes only - not to be used in property valuations.

Parameter	Regional / Super			Community			Neighbourhood			Power Centre		
	Low	Median	High	Low	Median	High	Low	Median	High	Low	Median	High
Schedule III: CRU vacancy allowance	3.0%	5.0%	7.0%	4.5%	7.0%	9.0%	4.5%	8.0%	11.0%	1.0%	3.0%	15.0%
Schedule IV: Unrecovered expense		3.0%			4.0%			5.5%			3.0%	
Schedule V: Vacancy shortfall (\$ per sf)	\$3.25	\$4.50	\$6.00	\$2.75	\$4.00	\$5.50	\$2.20	\$3.00	\$4.50	\$1.25	\$2.75	\$4.00
Schedule VI: Capitalization rates	6.5%	7.5%	8.0%	7.0%	8.0%	9.5%	8.0%	9.0%	11.0%	8.0%	9.0%	10.0%

3.4 Estimation of Potential Gross Income

Potential gross income is derived by valuing all leasable areas in the shopping centre by the current market rent for that space.

$$\boxed{\text{ALL GLA}} \times \boxed{\text{MARKET RENT FOR SPACE}} = \boxed{\text{PGI}}$$

All Leasable Areas

Under this valuation process all leasable areas, including vacant space, are valued. In this way, the potential income is established.

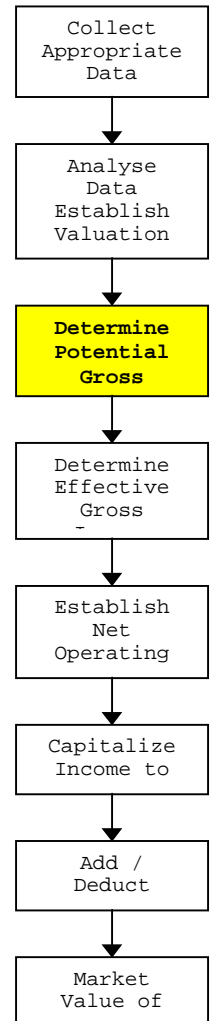
Measurement of Store Area - GLA

The most common standard used in measuring tenant space in shopping centres is the gross leasable area or GLA of the store. However, some rent rolls will report gross floor areas and others will report net floor areas for some or all of the tenants at the centre. It is important when comparing and establishing market rents that a uniform method of describing and measuring the space for each tenant is maintained.

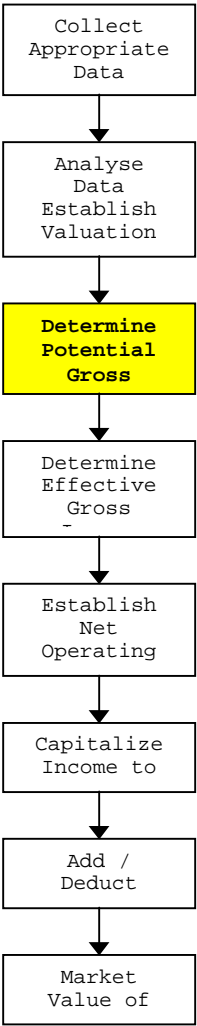
Confusion sometimes arises over the inclusion or exclusion of certain store areas in the determination of GLA:

- mezzanines,
- storage areas,
- basement areas,
- maintenance areas, and
- washroom areas, etc.

GLA generally refers to the area where retail activity takes place plus any parts of the store that are used exclusively by the tenant. However, the authoritative interpretation of the area occupied by any particular store is derived from a demised premises clause often found in the lease and/or an architect's certificate of area.



Using Market Rents



Market Rent is the net rent payable to the owner for the occupancy of the space, i.e., rent that the owner can count as part of his or her income (as opposed to payments for specific expenses). Current economic or market rents are used to form the basis of the valuation as opposed to actual rents because, in some cases, actual rents reflect historical revenues derived from leases negotiated before the valuation date.

In determining gross potential income, the valuator is not bound by the contractual rent between the landlord and tenant, but should determine rental income on the basis of what typically should be paid in the market at the time of valuation.⁵ This rent is known as “market” or “economic” rent.

Establishing “Potential” Income

To properly analyze the income from a shopping centre the following factors should be taken into account:

- Investors in shopping centres base their purchase price on the expected net income. A good way to value properties is to employ a method that follows the rationale and actions of the market place. Therefore, the valuation method described herein is also based upon the determination of net income.
- From an assessment perspective, income analysis should capture all interests in the property. Therefore, all potential income should be analyzed.

⁵ A Merkur & Sons Ltd. v Ontario Regional Assessment Commissioner (Region No. 14) (1977) 91 D.L.R. (3d) 764 (CA). Leave to appeal to S.C.C. refused 26 N.R. 264. See also Canadian Plaza Ltd. and Regional Assessment Commissioner Region no. 19 (1985) 15 D.L.R. 4th 156.

Fee Simple & Leased Fee Estate – Valuing All Interests

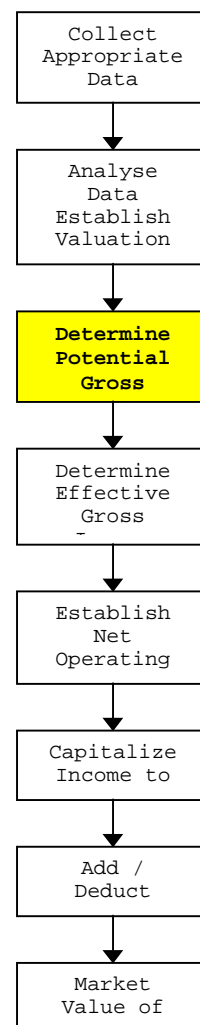
All interests in the property must be valued (owners and tenants).

By definition the market value of a property is a “fee simple” value. *A fee simple title is regarded as an estate without limitations or restrictions.* [The Appraisal of Real Estate, 8th Edition, American Institute of Real Estate Appraisers, p 8-9.] In other words, fee simple interest reflects the ownership of all of the rights inherent in the real estate, including the right to use the property, sell it, lease it, etc.

In a property where tenants have leased interests, e.g., a shopping centre or office building, and are renting at current market rates, the owner’s fee simple interest is captured in the valuation of the net income. If a tenant has a longer-term lease at below market rent, the tenant has an interest in the property. That tenant could conceivably sub-lease his or her space for a higher rent. Following this line of thought, if all stores are valued on the basis of current market rents, the expected potential income represents all interests or fee simple estate in the property.

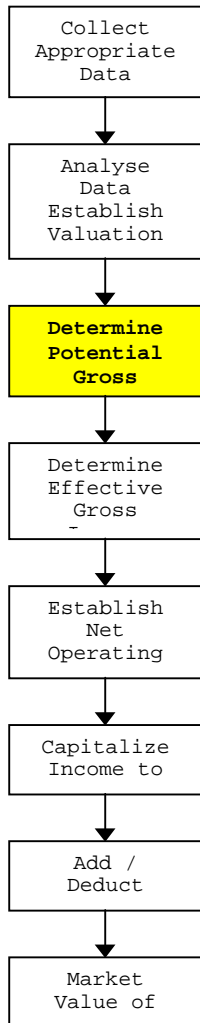
Therefore, in order to reflect fee simple value of the property, market rents (as of the valuation date) rather than actual rents should be used in the valuation of shopping centres.

A number of assessment cases support this position and one of the leading legal authorities is *A. Mekur & Sons v Ontario Regional Assessment Commissioner* (ibid.).



Income Sources

Potential income is derived from all sources in a shopping centre. As different vacancy rates can apply to different categories of tenants, e.g., anchor and CRU tenants, the valuation procedure tabulates the income for each of the following types of tenant:



a) Major Tenants

- Department stores (Sears, Bay, Eatons)
- Discount department stores (K Mart, Zellers, Walmart)
- Junior department stores (Saan, Peoples)
- Supermarkets

b) Commercial Retail Units (CRUs) - Allied Tenants

- Retail units
- Kiosks

c) Other Tenants

- Office units
- Other rentable space
- Land leases

The total potential income from each category of tenant is tabulated and input into the Rent Analysis Form (see Figure 5 for an example). **As far as the valuation process is concerned, the only reason for distinguishing between the income from the three types of tenants is due to the potential that a different vacancy rate might be required for each tenant type.**

In addition a shopping centre may derive additional rental income (that is not subject to vacancy conditions but forms part of the effective gross annual income) from the following sources:

d) Other/Miscellaneous Income

- Sign rentals,
- Common area rental (net income),
- Parking charges,
- Rent from amusement games/photo booth,
- Other income attributable to the real estate.

Figure 5: Form SC2 – Shopping Centre Rent Roll Analysis - Example

2.1	2.2	2.3	2.4	2.5	2.6	2.7	2.8	2.9	2.10	2.11	2.12	2.13
Valley Mall			Roll#	78932450		Value Date:		1-Jul-97		Date of Rent Roll		
Loc.	Cd	Trade Name	Rent Area	Lease Dates			Rents per SF		Adjust-ments	Net Rent	Market Rent	Market Rent - Total
				Start	End	Term	Base	Overage				
Major Tenants												
T001		K MART	64,560	1-Aug-76	31-Jul-01	25.0	\$3.50	\$0.00	(\$0.75)	\$2.75	\$5.00	\$ 322,800
T002		SAFEWAY	35,420	3-Oct-86	31-Oct-01	15.1	\$8.00	\$0.00		\$8.00	\$9.00	\$ 318,780
						0.0				\$0.00		\$ 0
						0.0				\$0.00		\$ 0
						0.0				\$0.00		\$ 0
Total	2		99,980									\$641,580
CRU Tenants												
L100		CALDERONE	2,214	3-Oct-90	1-Jan-98	7.3	\$25.00	\$1.50		\$26.50	\$29.00	\$ 64,206
L102	V	VACANT	6,665			0.0				\$0.00	\$25.00	\$ 166,625
L103		COLES BOOKS	1,714	1-Nov-90	1-Nov-98	8.0	\$22.00			\$22.00	\$30.00	\$ 51,420
L105		FOOTLOCKER	2,549	1-Apr-95	1-Apr-98	3.0	\$28.00	\$1.75		\$29.75	\$30.50	\$ 77,745
L106		WALL STREET	1,314	1-Jun-96	31-May-99	3.0	\$35.50			\$35.50	\$35.50	\$ 46,647
L109		NORTHERN REFLECTIONS	2,176	15-Jul-97	15-Jul-00	3.0	\$30.50			\$30.50	\$30.50	\$ 66,368
L110	V	DONUT MAN	869			0.0	\$0.00	\$41.00		\$41.00	\$50.00	\$ 43,450
		2 TENANTS	10,242			0.0				\$0.00	\$28.00	\$ 286,776
		50 TENANTS	61,668			0.0				\$0.00	\$29.00	\$ 1,788,372
						0.0				\$0.00		\$ 0
						0.0				\$0.00		\$ 0
						0.0				\$0.00		\$ 0
						0.0				\$0.00		\$ 0
						0.0				\$0.00		\$ 0
Total	9		89,411								\$28.99	\$2,591,609
Other Tenants												
O201		J & D ACCOUNTANTS	1,200	10-Jan-93	10-Jan-99	6.0	\$8.00		(\$0.75)	\$7.25	\$11.00	\$ 13,200
O202		STATE FARM INSURANCE	1,200	30-Mar-96	1-Sep-99	3.4	\$11.00			\$11.00	\$13.50	\$ 16,200
O20	V	VACANT	1,575			0.0				\$0.00	\$12.00	\$ 18,900
O104		COMMUNITY DENTISTS	7,665	1-May-97	1-May-02	5.0	\$9.00			\$9.00	\$11.50	\$ 88,148
						0.0				\$0.00		\$ 0
Total	4		11,640								\$11.72	\$136,448

Land Leases, "Pads" and Exterior Buildings

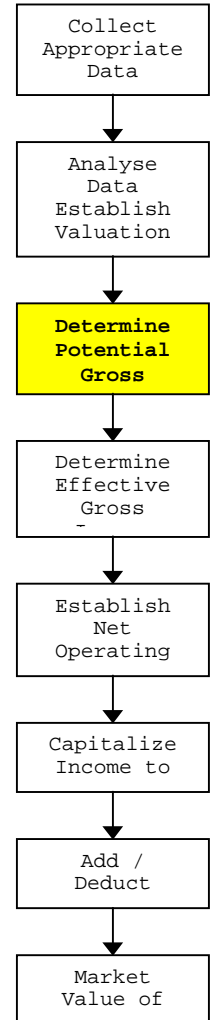
Any assessable interest, including exterior buildings which would be transferred with the exchange of ownership, is eligible for assessment as part of the shopping centre. The value of "pads" or land leases is not simply a function of the rents paid for the land, but the amount that the exterior building (e.g., restaurant, bank or service station) would rent for. For example, a shopping centre with two equivalent external fast food restaurants, one on a land lease, and the other paying a market rent of \$20 per square foot, should both be valued at \$20 per square foot, i.e., the amount of money that the space would rent for at the date of valuation.

Determining Market Rents as of the Valuation Date

Base Rent

To establish the market value of a shopping centre property the income calculation must be based upon the appropriate market rents for the leasable areas. To determine the current market rent for each tenant the following guidelines are provided (in descending order of importance):

- 1) For most tenants the best source of market rent information is the rent roll for the subject shopping centre. Using these rent rolls, market rents can be determined from:
 - Actual leases signed on or around the valuation date.
 - Actual leases within the first 3 years of their term as of the valuation date.
 - Current rents for similar types of stores in the same shopping centre.
 - Older leases with active overage rent clauses.
- 2) As a secondary source of rent information, and as a check on the rents derived from the actual rent rolls, the rental rates can be compared to the rents established for similar types of stores in similar shopping centres. This information is reported in Schedule I.
- 3) If comparable information is not available, it may be necessary to analyze the existing lease and interview the owner and tenant to determine what the current rent on the space should be.



Overage Rent

Overage rent should be added to the base rent in order to determine the net rent paid to the owner.

Overage rent may form a minor or significant portion of the rent collected in a shopping centre. Sometimes information on overage rent is provided on a rent roll but more often it is found as a summary figure on the income and expense statement. If the rent roll specifies the overage rent for each tenant, the net rent to the owner is the sum of the base rent plus the overage rent. However, if the overage rent is totaled on the income and expense statement, some adjustment to tenant rents may be necessary in the determination of market rental rates.

Apart from the actual data supplied by the shopping centre owners, the best source of typical overage rents is *Dollars and Cents of Shopping Centres*.

Rent Adjustments - Inducements

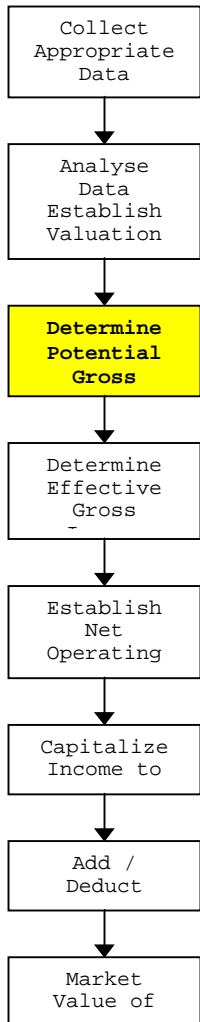
Tenant inducements should be deducted from base rent.

In certain years in the shopping centre market place, there will be a few rents that require adjustments for inducements. Typically, this factor will only apply to department store rents, as other inducements or incidental leasing costs will probably form part of the unrecovered management expenses and are accounted for elsewhere in the valuation process.

Such inducements are to be taken into account when establishing the appropriate market rent for the space.

To establish a current market rent for a department store, the assessor must consider the current market conditions for such stores. Under current leasing arrangements, department stores often, but not always, receive inducements in the form of fixturing costs or cash payments. In some instances these inducements may only total \$100,000 while in others they have been as high as \$3 Million.

The rationale for deducting for inducements is found in the determination of the current market rent for a store. For example, if a department store signs a new lease indicating \$700,000 per annum in rent and receives back \$2 Million in inducements, then the real net rent paid is somewhat less than \$700,000 per annum.



Information on inducements can be found in the Letter of Intent, the Offer to Lease, and/or within the lease. The best way to obtain the particular information on inducements is to contact the centre owner and/or the major tenant.

The effect of an inducement can be determined as follows:

$$\text{INDUCEMENT PER SF} = \text{TOTAL INDUCEMENT} \div \text{STORE GLA} \div \text{TERM OF LEASE}$$

In the above department store example, the effect of the inducement (without considering the time value of money) would be as follows:

Department Store:	135,000 sf
Lease	25 years
Inducement:	\$2 Million

$$\text{Inducement per SF} = \$2 \text{ Million} \div 135,000 \div 25 = \$0.593 / \text{Sf}$$

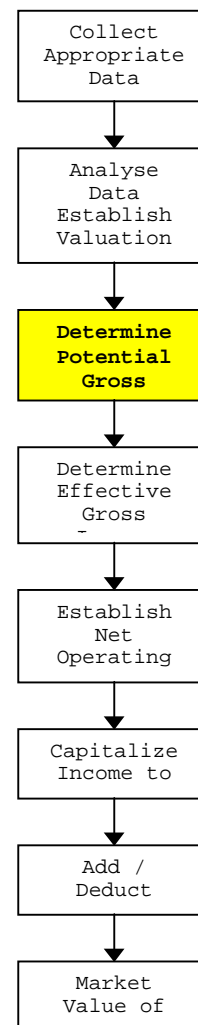
Therefore in this example say the contract rent paid by the department store is \$5 per square foot. After allowing for the inducement the net effective rent is \$0.59 lower than the contract rent or \$4.41 per square foot.

Rent Adjustments - CAM Charges

Every tenant of a shopping centre is partially responsible for the expense of operating the shopping centre and maintaining the common areas of that centre. Most tenant leases make provision to cover these CAM expenses as part of the rental payments made to the landlord. In a simplified world, all tenants would cover the expenses attributable to their existence in the shopping centre and no adjustments would be required for CAM charges. The reality of the market place is different:

- CAM expenses are not generally analyzed and reported in a way that allows them to be appropriately assigned to each tenant.
- Under their leases, department stores often limit the amount of CAM they will pay, e.g., \$1 per square foot to be increased in five-year intervals by the change in the Consumer Price Index.

When the rental arrangements of a tenant do not reflect the actual CAM expense attributable to that tenant, the actual rent received by the owner may be higher or lower than the base rent. In such cases adjustments may have to be made for the excessive or deficient CAM payment.



The typical arrangement is for the landlord to establish the total CAM expenses, deduct the amount contributed by the anchor stores, and split the remainder among the CRU tenants according to their square footage, i.e., a proportionate square foot basis.

It follows that in any shopping centre where the current contract rent of a major tenant includes some limit on the amount of CAM paid then establishing market rents requires a CAM adjustment for all tenants.

CAM Adjustment Process

For example, consider the following department store lease (where taxes are considered separately):

Face rent	\$5.00
CAM limited to	<u>\$0.50</u>
Total contract rent	\$5.50

In this example, the actual CAM expenses attributable to the department store amount to \$2.50 per square foot. (This \$2.50 department store CAM expense may be somewhat lower than the actual CAM expenses attributable to the CRU tenants.) Therefore, in this scenario the effective net rent paid by the department store would be:

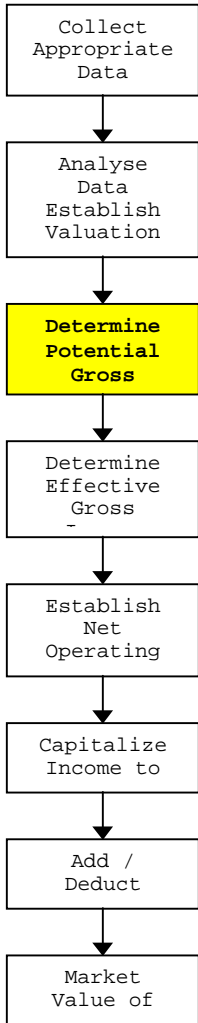
Contract rent	\$5.50
Less tenant inducements	\$0.00
Less actual CAM cost	<u>\$2.50</u>
Effective net rent	\$3.00

Information on typical CAM rates can be found in Schedule II.

Market Rent Conclusion

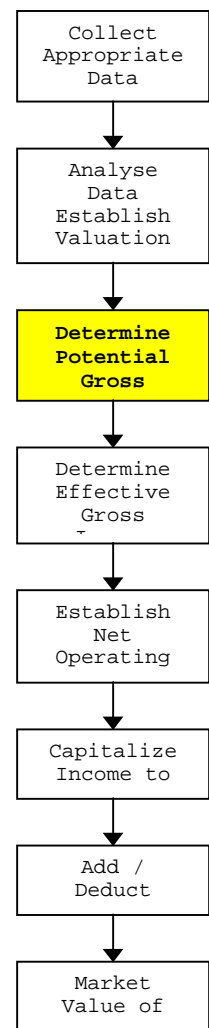
Using current rental figures, market rent may be determined as follows:

$$\text{MARKET RENT} = \text{BASE RENT} + \text{OVERAGE RENT} - \text{INDUCEMENT} + \text{CAM ADJUSTMENT}$$



Derive Potential Gross Income - Summary

1. Using the rent roll information, derive the expected potential annual income for the shopping centre. As indicated, income should be derived on the basis of the valuation date market rents for that space. The entire gross leasable area of the shopping centre, both vacant and occupied space, should be valued on this basis, and the resulting calculation will be the expected potential rent.
2. Existing rental rates should be compared with valuation date market rents in order to ensure the appropriate income and property interests are being analysed. In general, recently signed leases will give the best indication of market rents. However, base rents with active overage clauses can also be said to reflect current market conditions.
3. If rent roll information is not available, and/or if the actual rent appears to be out of line with “typical rents” then, rents can be established according to the guidelines on rental ranges indicated in Schedule I.



Example of Shopping Centre Valuation Analysis

See the complete example of a shopping centre valuation in section 5.0. An example of the potential gross income calculation is presented below.

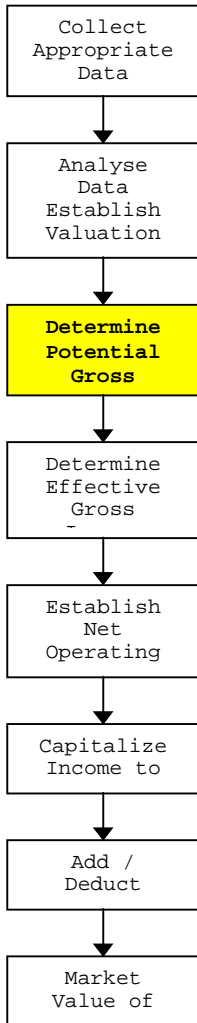


Table 1: Example of Potential Gross Income Calculation

Market rent majors	\$641,580
Market rent CRUs	\$2,591,609
Market rent other	\$136,448
PGI	\$3,369,637

3.5 Determine Effective Gross Annual Income

Effective gross income is equal to the potential gross income (PGI) from the centre less the typical vacancy and bad debt allowance.

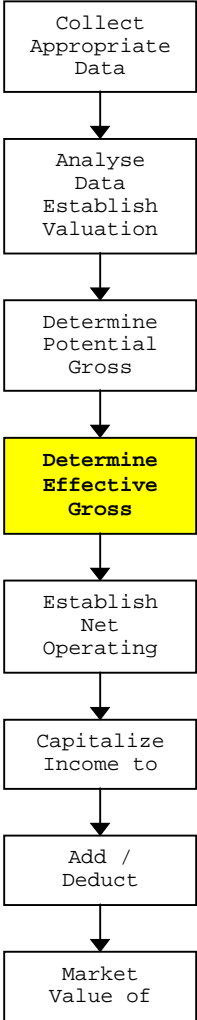
Vacancies

Vacancies reflect the amount of space that is typically vacant in a type of shopping centre. Three issues arise when considering vacancies:

1. Not all categories of tenants experience the same vacancy conditions. Therefore, up to three different vacancy rates may be required in the valuation of a centre:
 - a) Vacancy rates for major tenants,
 - b) Vacancy rates for CRU (retail) tenants, and
 - c) Vacancy rates for other (office) tenants.
2. Individual shopping centres often differ from the norm. However, unless there are extenuating circumstances, efforts should be made to apply the vacancy rates within the range suggested in the valuation parameters contained in Schedule III.
3. The vacancy and bad debt allowance should recognise the loss in income to the owner. As such it should consider the type of retail space that is vacant and the income that could be generated by that space. However, this valuation process is set up to consider the “average” income lost.

A vacancy rate is the ratio between the amount of vacant space and the total GLA of that category of tenant. For example,

CRU VACANT SPACE	=	11,145 SF
TOTAL CRU GLA	=	126,725 SF
VACANCY RATIO	=	11,145 / 126,725 = 8.8%



Vacancy for Major Tenants

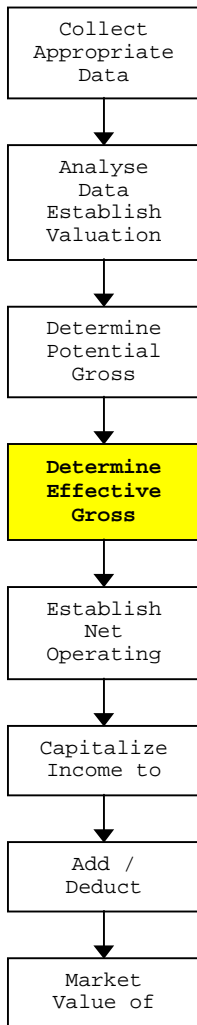
Although it is not typical to find a shopping centre that a major tenant has vacated, it does happen - witness Woodward's. Since there is a risk of this occurrence and since there are some shopping centres with major tenant vacancies, a nominal vacancy rate of 1 percent is often employed against major tenants in this valuation process.

Abnormal Vacancy

Some properties may experience abnormal vacancy levels from time-to-time. Before assigning a vacancy rate that is outside the range suggested in Schedule III, proper investigation should be undertaken as to why this condition is occurring and whether high vacancies are prevalent in other commercial retail outlets in the region.

Bad Debt

Bad debt represents rental and other payments that tenants owe but do not pay. In this valuation approach, deductions for bad debts are considered as part of the allowance given for typical vacancy.



Information on typical vacancy and bad debt allowances can be found in Schedule III

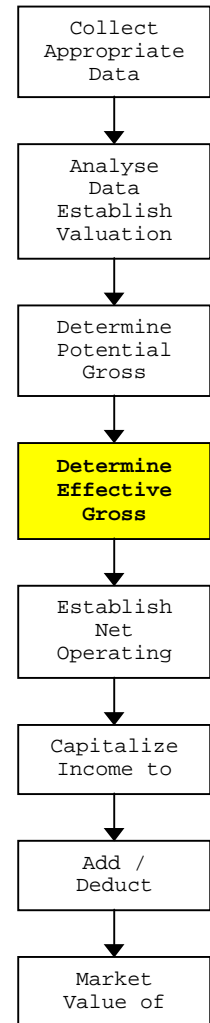
Example of Shopping Centre Valuation Analysis

See the complete example of a shopping centre analysis in section 5.0. An example of the effective gross income calculation is presented below.

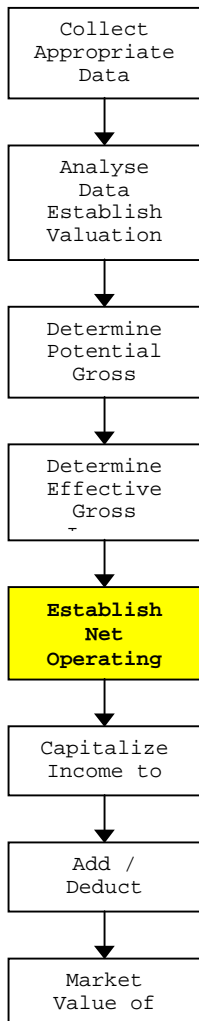
Table 2: Example of Effective Gross Income Calculation

Potential gross income		\$3,369,636
Major vacancy	1.0%	\$6,416
CRU vacancy	9.0%	\$233,245
Other vacancy	9.0%	\$12,280
Sub-total		\$3,117,695
Other centre income *		\$76,532
EGI		\$3,194,2273

* From Income and Expense Statement



3.6 Establish Net Operating Income



The operating expenses that are not recovered must be deducted from the effective gross income to obtain the net operating income⁶ from the property.

$$\text{NOI} = \text{EGI} - \text{VACANT SPACE SHORTFALL} - \text{UNRECOVERED EXPENSE}$$

Where current leases are signed on a net rent basis, the tenant also agrees to pay his or her share (as defined in the lease) of the operating expenses associated with the property (also as defined in the lease). In a typical shopping centre, the operating costs such as real property taxes, heating, air conditioning, cleaning, etc., are apportioned among the tenants according to the arrangements stipulated by the leases. "Net" rent analysis attempts to consider the value of the income "net" to the owner, that is, the income after all expenses have been paid. Even on a net rental basis, however, there are two areas where the property owner must cover expenses.

1. **Non-recoverable operating expenses** which are not passed on to the tenants, and
2. The expenses associated with operating the vacant space, or **the vacant space shortfall**.

Therefore, the effective gross income must be reduced by the total amount of these "unrecovered" expenses to determine the net operating income received by the owner.

⁶ For a general discussion of the principles to be applied see *Alstores Realty Corp. v Board of Assessors of Peabody*, 391 Mass. 60 460 N.E. 2d 1276 (1984)

Unrecovered Operating Expenses

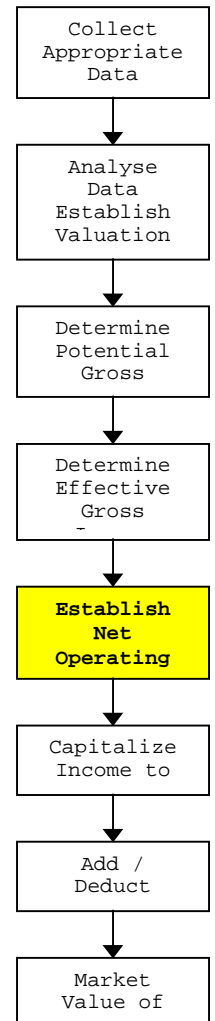
Non-Recoverable Operating Expenses (typically not included in a lease)

The operating expenses that are typically not recovered from tenants under the terms of a lease are as follows:

- **Legal and audit fees**
- **Structural repairs** and repairs which are capital in nature and outside standard maintenance and repair work. This would include such things as roof and wall repairs and parking lot resurfacing. In the general operation of a shopping centre, these types of expenses would not generally occur every year.
- **Advertising and promotion** only includes advertisements by the management in the operation of the centre, for example, advertising to fill vacant space.
- **Leasing commissions**, in times of high vacancies and when the building is first being leased, even though amortized over the term of the lease for which they are incurred, can have a large effect on the net income generated for the landlord. Leasing commissions should be taken into account when establishing the net effective rent paid by a tenant. However, if they have not been properly accounted for in determining the rent, they form part of the deduction for unrecovered operating expenses.

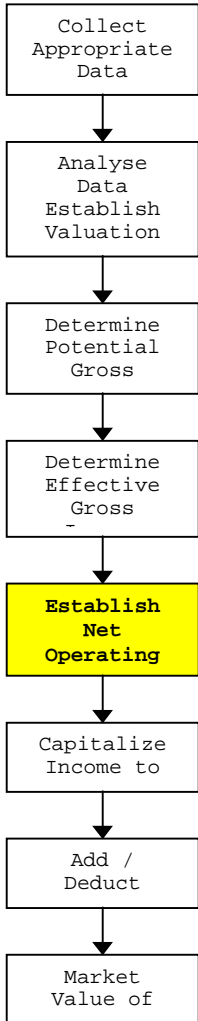
Vacant Space Shortfall

Expenses related to the cost of carrying vacant space are not chargeable to other tenants under typical lease arrangements. When space becomes vacant, the owner of the shopping centre carries the operating costs of that space. These costs include such things as heating and security associated with the unoccupied space as well as some operating expenses and realty tax payments that would otherwise have been made by a tenant. The expense represents a shortfall to the owner, and therefore, a deduction from the amount of income received from the shopping centre. In assessing the centre, the vacant space expense shortfall should be based on typical vacancy levels, that is, the same vacancy factor that is used in determining of effective gross income.



Vacant Space Shortfall =

$$\text{Typical Vacant Space} \times \text{Vacant Space Operating Cost Per SF}$$



The typical **vacant space operating costs per square foot** range between \$2.00 and \$8.00 depending on the type of centre as presented in Schedule IV, *Unrecovered Operating Expense*.

Note: Unless there are extenuating circumstances, which must be noted by the assessor, in order to derive the appropriate deduction for vacant space shortfall, typical vacancy rates should be used as opposed to actual vacancy rates. (The aim is to derive the value of the real estate under the typical existing market conditions).

Operating Expense Surcharge

A common clause contained in shopping centre leases is an administration charge or surcharge on operating expenses. This surcharge usually amounts to 15 percent of the operating expenses. In normal circumstances part of the surcharge is attributed to the management and administration of the building, and therefore, covers the value of the management interest in the property. The other part of the surcharge contributes to the costs of non-recoverable operating expenses and to the vacant space shortfall. As a result, the operating expense surcharge serves to reduce the deduction made for unrecovered operating expenses.

Determination of Net Operating Income

As stated at the beginning, the objective of this valuation process is to determine the annual net operating income. When making the deductions for unrecovered operating expenses (as noted above) from the effective gross income, the assessor must annualize such expenses as structural repairs and other extraordinary repairs over a reasonable period of years. The same applies to leasing commissions that should be charged over the course of the lease term. By deducting the annualized portion of these expenses from the EGI a more realistic picture of NOI is given and provides the foundation for a more stabilized market value for the shopping centre.

Issues with Expenses

Net or Gross Leases

Leases are generally referred to as being “net” or “gross” but in most cases they are not completely one or the other. In a net net lease the tenants pay for all operational costs, taxes, maintenance, etc. and the owner is not involved in the costs of operating the property. In a truly *gross* lease, the owner meets all operational expenses.

In today’s shopping centres, most leases are structured to be “net” of expenses. However, in most shopping centres, this still leaves the owners with some unrecoverable operating expenses.

Where leases are of a gross or semi-gross nature, efforts must be made to determine the net market rent. These steps may involve a comparison to similar space leased on net terms, or may require the valuator to deduct operating expenses off the gross lease in order to arrive at net rental rates.

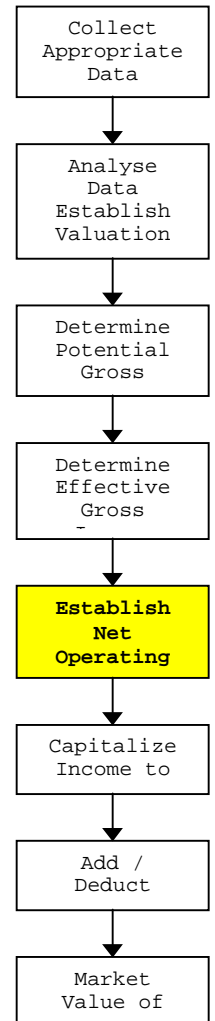
Operating Expenses

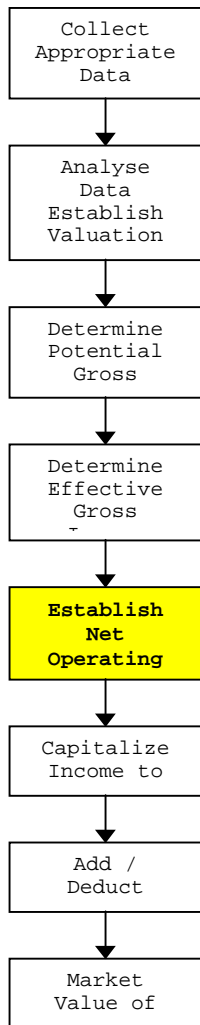
Operating expenses are different from non-recoverable operating expenses. Operating expenses reflect the costs of operating the centre - most of which are recovered from the tenants, for example, heat, light, power, maintenance, snow removal. It is only some expenses that are non-recoverable (See Glossary).

Improper Expenses

Income and expense statements often contain “accounting” items that do not form part of the income approach procedure. Examples of such items are:

- Income taxes,
- Depreciation,
- Interest and debt service,
- Capital improvements, and
- Owner’s business expenses (over and above reasonable expenses incurred in regards to the generation of income by the property).





Such expenses should not be deducted because they do not affect the value of the real estate. Depreciation in the income approach is treated as a form of value “recapture” and is therefore considered to be part of the capitalization rate. Debt service payments do not affect the value of the real estate, i.e., the price of a property will not change if there is, or if there is not a mortgage at current market rates. (Market value assumes a cash equivalent value). Capital expenses affect the long-term income generating ability of the property and will therefore be reflected in the analysis of the income stream.

Example of Shopping Centre Valuation Analysis

See the complete example of shopping centre valuation in section 5.0. A summary of the vacant space expense shortfall calculation is presented below.

Table 3: Example of Vacant Space Expense Shortfall Calculation

Total GLA of Centre		201,031
Operating Costs of Vacant Space		\$5.00
Typical Vacancy **	5.0%	10,094
Vacant Space Expense Shortfall		\$50,470

** As per vacancy allowances in EGI calculation

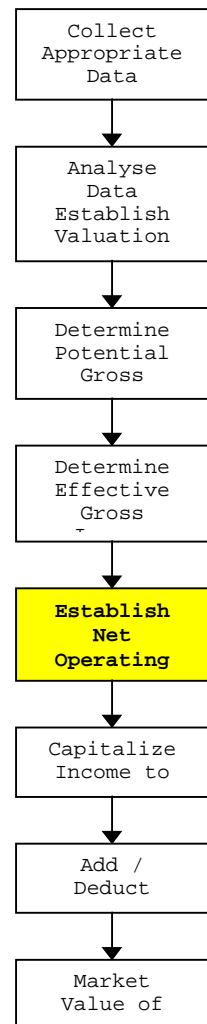
Major vacancy: 1% of 99,980	=	999
CRU vacancy: 9% of 89,411	=	8,047
Other vacancy: 9% of 11,640	=	<u>1,048</u>
<u>Total</u>		<u>10,094</u>

Information on typical vacant space shortfall & unrecovered expenses can be found in Schedule IV and V.

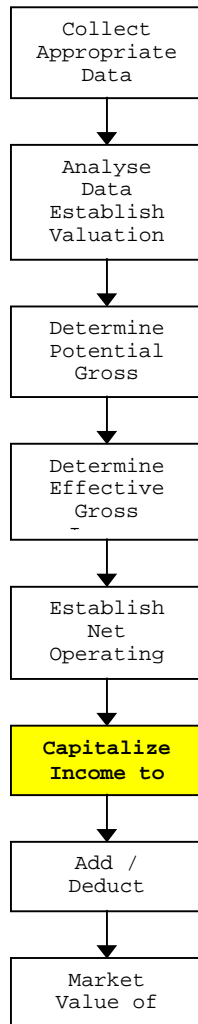
Table 4: Example of Net Operating Income Calculation

Effective gross annual income		\$3,194,227
Vacant space expense shortfall		\$50,470
Unrecovered expense	4.0%	\$127,769
NOI		\$3,015,986

Once deductions for non-recoverable expenses have been made, the remaining figure represents the net operating income of the shopping centre.



3.7 Capitalize the Net Operating Income into Value



The current value of the rental income stream is determined by capitalizing the net operating income. The selection of an appropriate capitalization rate is essential to the estimation of a realistic and equitable market value for the property.

$$\text{VALUE OF INCOME} = \text{NET OPERATING INCOME} \div \text{CAPITALIZATION RATE}$$

The capitalization rate to be applied to value a shopping centre property arises from analysis of two types of information:

1. The primary source is the analysis of sales of similar properties, e.g., a similar community or regional centre. (Turning the above equation around: $\text{Cap Rate} = \text{NOI} \div \text{Value}$)
2. A secondary source arises from the fact that, as an investment, a shopping centre must be competitive with other investment opportunities. From an investment point-of-view, the more similar the characteristics of the associated income stream, i.e., the frequency of payment, its potential for growth, and the risks associated with the income, the more comparable the investment and the more comparable the capitalization rate.

Therefore, when shopping centre sales information is unavailable, shopping centre capitalization rates are often established in comparison to mortgage rates and a combination of mortgage and equity rates. However, this and other methods of establishing capitalization rates should only be considered when appropriate sales data is not available and as a check on the results of the sales analysis.

As a guideline, a range of capitalization rates to be applied to various types of shopping centres has been provided in Schedule VI.

Establishing a Capitalization Rate

To assist with the determination of the capitalization rate to be applied to a shopping centre, the property should be compared to the typical model and the range of capitalization rates found in Schedule VI for each type of centre. Schedule VI was developed in consideration of various shopping centre sales. Information on these sales, including the characteristics of the centre, can be found in the *Valuation Parameter Guide*.

Note: Since the income approach is based upon the present worth of future benefits, when analysing capitalization rates, recognition should be taken of the expected future income at the time of the valuation.

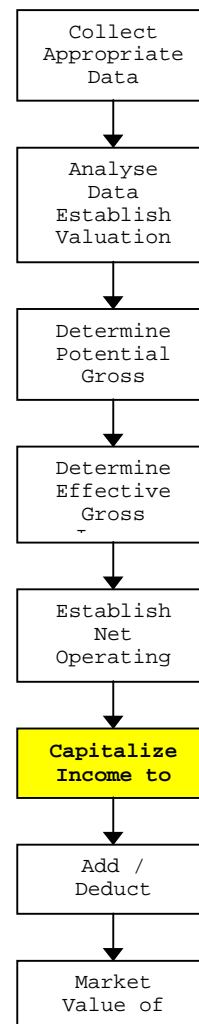
Capitalization Rate Guidelines

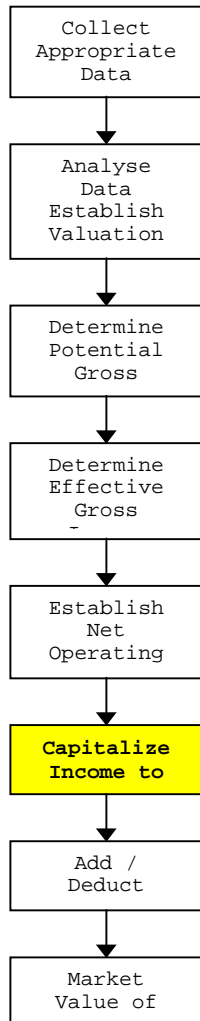
There are a number of influences that could affect the capitalization rate to be applied. In general, favourable conditions should lower the capitalization rate and raise the value; negative conditions should raise the capitalization rate and lower the value. Influences include:

- tenant mix,
- competition, and expected changes in competition,
- location - roads, parking, access,
- property age and condition,
- property design,
- expansion capabilities - market size and centre size, and
- property taxes.

The following comments are provided as a guide to enable the selection of an appropriate cap rate -- they are not intended to substitute for the assessor's judgment.

In terms of selecting the appropriate capitalization rate, a "better" centre should have a lower capitalization rate (higher value) while a "poorer" centre should have a higher rate (producing a lower value). The following factors should be considered.





Factor	Cap Rate Influence
More growth potential in income stream, i.e., fewer long term rental arrangements	Lower
Less growth potential in income stream	Higher
More risk associated with rental payments, i.e., unreliable tenants	Higher
Less risk associated with rental payments, stable & financially sound tenants	Lower
Vacancy and bad debt problems	Higher
Low retail sales performance = increase risk	Higher
Higher rates and returns for competitive investments	Higher
Lower rates and returns for competitive investments	Lower

Issues with Capitalization Rate

Effective Tax Rates

In some income valuation procedures, the capitalization rate employed is adjusted for taxation considerations. Because net incomes are being considered, this adjustment is not required in this shopping centre valuation procedure.

Going Outside the Suggested Range

Again, the information provided in the Schedules is the result of research undertaken on a number of different shopping centres. They are not intended to replace the assessor's judgment. If there is a good reason, as noted by the assessor, to apply a cap rate outside the suggested range, then that is the factor that should be used.

3.8 Add / Deduct Other Values

From an assessment perspective, there are a number of potential sources of additional value to consider before arriving at the final value of the centre.

Excess Land

The major source of additional value is any excess land at the centre. Excess land refers to land in excess of the requirements of the shopping centre buildings, common areas and parking.

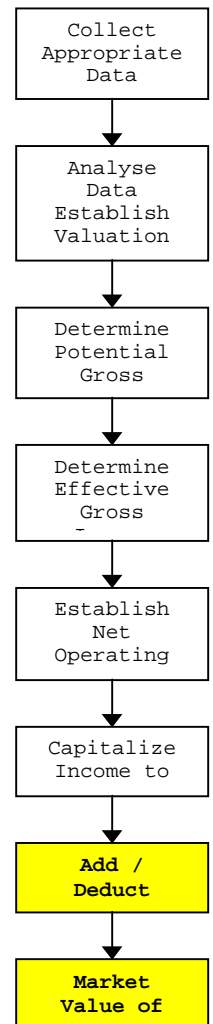
Excess land should be determined through analysis of local zoning by-laws and the current development of the subject property. Although zoning restrictions vary widely the following is a set of guidelines to consider when determining excess land.

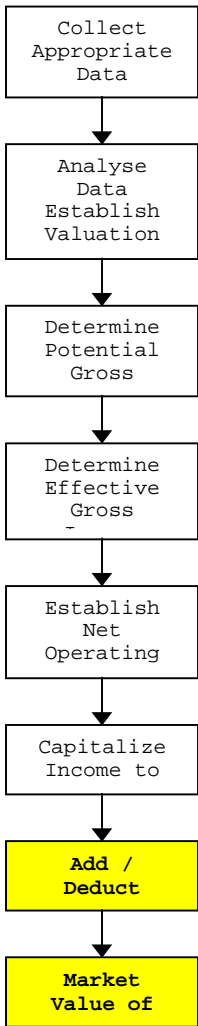
Required Information	Source
Site size	records, plans
Building coverage (include interior common areas)	records, building plans
Total GLA	rent roll, records
Parking requirement	zoning by-laws
Other zoning setback and landscaping requirements	zoning by-laws

Other information to be obtained from inspection:

- Building/site layout,
- Site topography, and
- Location of unused space.

It is unlikely that any shopping centre with a parkade has excess land.





In determining the amount of excess land, a formula has been developed that incorporates the necessary data as outlined above. In addition the following factors should be given consideration. (These factors apply to suburban style centres with free parking and not, generally, to “downtown centres” where it is rare to find excess land in any case.)

Considerations

1. There is a certain portion of the site that will not be developable due to landscaping and/or setback requirements: (from 2% to 8% of the site). Even if there are no such zoning requirements, aesthetics and current shopping centre standards dictate that part of the site be landscaped.
2. The number of parking spaces required and provided. Parking requirements contained in zoning by-laws can vary between 0 and 6.0 spaces per 1,000 square feet of centre area. However, to comfortably accommodate their customers, shopping centres generally attempt to provide between 4.5 and 5.5 spaces for every 1,000 square feet of GLA. In fact, some department store leases require that the landlord provide this standard.

Therefore, the parking standard employed in the determination of the amount of excess land is the greater of a) the parking standard required under the zoning, or, b) parking up to 5.5 spaces per 1,000 square feet of GLA.

Including interior roadways, the area required for each parking space varies between 340 to 400 square feet. The current formula found in the spreadsheet Form SC3 works on a rate of 375 square feet per space.

3. In addition to the building footprint, land must be set aside for walkways, canopies, garden centres and other such exterior features set aside for pedestrian/customer use: (from 8 percent to 15 percent of the building area).

4. If the calculations show excess land, such land must be developable and/or saleable in order to be considered excess. Therefore, some minimum excess land criteria should be built into the formula.
5. In the final analysis, the site should be inspected to confirm the existence of excess land.

Example of Shopping Centre Valuation Analysis

See the example of shopping centre valuation in section 5.0. An example of the excess land value calculation is presented below.

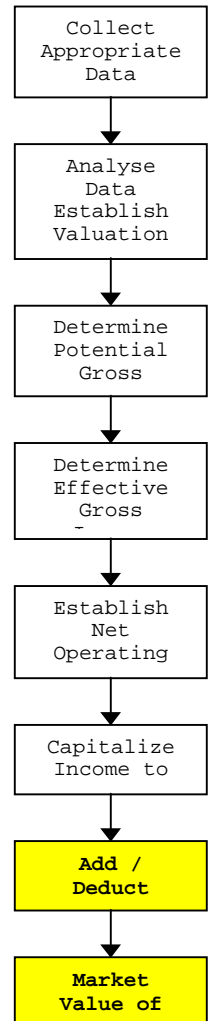
Example of Excess Land Calculation

Site size	1,000,000 sf	
Building coverage	236,031 sf	
Gross leasable area	201,031 sf	
Parking spaces required	4.5 per 1,000 sf	
Parking spaces provided	5.9 per 1,000 sf	1,180

Formula

Building coverage		236,031 sf
Pedestrian area	11% of 236,031	25,963 sf
Landscaped area	5% of 1,000,000	50,000 sf
Parking spaces @ 5.5	1,106 @ 375 sf	<u>414,750 sf</u>
Site required		726,744 sf
Unusable land		15,000 sf
Actual site		<u>1,000,000 sf</u>
Excess land	(test > 30,000 sf)	258,256 sf

The value of such excess land must be established and may vary according to its location on the site, e.g., front, side, or rear area.

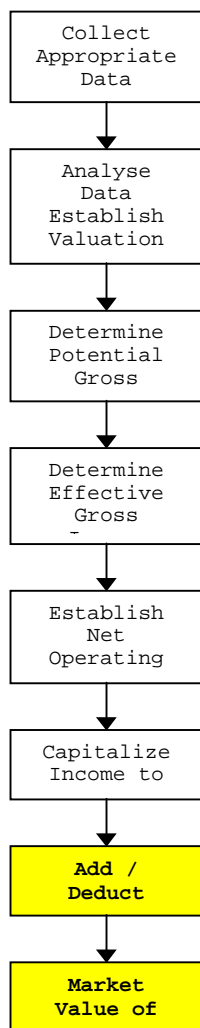


Issues with the Final Value

Leasehold Improvements

Some valuers hold the view that the leasehold improvements put in by the tenants add value to the site. This question is debatable, but the most commonly held view is that such improvements do not change the rent that can be charged or obtained and therefore the improvements have limited if any value under an income approach.

In practice, and from an owner's market perspective, the amount of rent that can, and is, collected in a shopping centre does not change if the space is finished or unfinished. Typically, some space in a shopping centre is leased in a finished or partially finished state and some is not. The rent that is collected reflects the market value of the space and thus includes the value of the leasehold improvements, if any.



4.0 *Validation of Results*

The strength of an assessment system rests on two tenets:

- its ability to produce appropriate market values, and
- that it treats similar properties in a fair and consistent manner.

In order to accomplish these ends the valuation process that is employed should reflect the views and methods used in the market place. It should be applicable to all properties, but should have the flexibility to deal with the variations and market conditions that are encountered.

The shopping centre valuation process contained in this valuation guide employs an approach that is accepted and understood in the market place, and it has built-in controls that ensure fair and consistent treatment while allowing some flexibility for the realities of the market place.

There are three areas where the quality of the results can be ensured, quickly and efficiently:

- valuation parameters,
- check against sales values, and
- data filters.

Valuation Parameters

The system as proposed sets up a table of valuation parameters. Ideally this information would be collected by local assessors, assembled and researched by a central committee, and the results disseminated to the local assessment offices. For each valuation parameter, a range of potential values is provided.

If, when valuing a property, the assessor stays within these valuation parameters, the whole system is applied in a fair and consistent manner, i.e., the results of any shopping centre analysis is validated within certain given parameters.

The process also requires that whenever the assessor applies a different parameter a reason for the extenuating circumstances be given. Again, in this way, the process incorporates flexibility and accountability.

Check Against Sales Values

To ensure the values that are developed are in line with the market, the assessment values should be checked against any sales that take place. Such sales also have inferences for values of similar properties and, as such, a level of comfort can be developed about the assessment values on a \$ per square foot GLA measure.

Data Filters

Another way to ensure consistent and reliable results is to place data filters on the input, e.g., all rents must fall between \$1.00 and \$200.00 per square foot.

5.0 Example of Property Valuation

The three forms shown on the following pages illustrate an example of a shopping centre valuation. The analysis is set up on a three-page (or worksheet) spreadsheet. Values and pertinent data are to be entered in the blank (white) cells. All shaded cells are either formulas or “look-up” cells and should not be over-written. A line-by-line explanation of these forms follows in section 5.1.

Form SC1 – Shopping Centre Data Entry

On this form the assessor should enter all the pertinent physical and descriptive data about the subject property. The data entered on this worksheet will be carried forward onto Form SC2 and Form SC3 as required.

Also, at the bottom of this form, the parameters for evaluating excess land should be entered.

Form SC2 – Shopping Centre Rent Roll Analysis

The second form is provided to assist the assessor in determining the appropriate rents to be applied to the subject property. If actual rents as determined from the subject, are within the range of rents for that type of store and class of shopping centre (as determined in the rent analysis study) apply actual rents. Otherwise, use the typical rents indicated from the market study.

Form SC3 – Shopping Centre Valuation Summary

In the third form, the assessor should enter the vacancy rates, and the other valuation parameters. Given this information and the correct building areas, the spreadsheet will calculate the appropriate market value for the subject property.

Figure 6: Form SC1 – Shopping Centre Data Entry - Example

LINE

1.1	Centre	Valley Mall	Value date	1-Jul-97
1.2	Address	701 21st Ave SW		
1.3	Municipality	Lethbridge	Measurements in	feet
1.4	Roll #	78932450		
1.5	Centre type	Community		
1.6	Levels & enclosure	1 Enclosed		
1.7	No. of tenants	60		

Inspection notes			
1.8	Inspection date/ time	15-Sep-97	10:30 AM
1.9	Centre quality	Good 1970s mall	
1.10	Vacancies	4 CRU, including fmr Tip Top	
1.11	Extra features	Superior entrance - excess land	
1.12	Parking	No parking structure, 25% full at inspection	
1.13	Access	Good - off 2 main streets	
1.14	Customer activity	Light - early in week day	
1.15	Condition	Well maintained	
1.16	Other comment 1	Separate restaurant on site	
1.17	Other comment 2		

Land / building area		
1.18	Site area sf	1,000,000
1.19	Building coverage sf	236,031
1.20	Coverage ratio	23.6%

Excess land data		
1.21	Unusable land sf	15,000
1.22	% Landscaping	5.0%
1.23	% Pedestrian area	11.0%
1.24	Minimum site size sf	30,000
1.25	# Parking spaces	1,180
1.26	Pkg required - zoning (Spaces per 1000 Sf of GLA)	4.50

Figure 7: Form SC2 – Shopping Centre Rent Roll Analysis - Example

COLUMNS

2.1	2.2	2.3	2.4	2.5	2.6	2.7	2.8	2.9	2.10	2.11	2.12	2.13
Valley Mall			Roll#	78932450	Value Date:			1-Jul-97	Date of Rent Roll			
Loc.	Cd	Trade Name	Rent Area	Lease Dates			Rents per SF		Adjust-ments	Net Rent	Market Rent	Market Rent - Total
				Start	End	Term	Base	Overage				
Major Tenants												
T001		K MART	64,560	1-Aug-76	31-Jul-01	25.0	\$3.50	\$0.00	(\$0.75)	\$2.75	\$5.00	\$ 322,800
T002		SAFEWAY	35,420	3-Oct-86	31-Oct-01	15.1	\$8.00	\$0.00		\$8.00	\$9.00	\$ 318,780
						0.0				\$0.00		\$ 0
						0.0				\$0.00		\$ 0
						0.0				\$0.00		\$ 0
Total	2		99,980									\$641,580
CRU Tenants												
L100		CALDERONE	2,214	3-Oct-90	1-Jan-98	7.3	\$25.00	\$1.50		\$26.50	\$29.00	\$ 64,206
L102	V	VACANT	6,665			0.0				\$0.00	\$25.00	\$ 166,625
L103		COLES BOOKS	1,714	1-Nov-90	1-Nov-98	8.0	\$22.00			\$22.00	\$30.00	\$ 51,420
L105		FOOTLOCKER	2,549	1-Apr-95	1-Apr-98	3.0	\$28.00	\$1.75		\$29.75	\$30.50	\$ 77,745
L106		WALL STREET	1,314	1-Jun-96	31-May-99	3.0	\$35.50			\$35.50	\$35.50	\$ 46,647
L109		NORTHERN REFLECTIONS	2,176	15-Jul-97	15-Jul-00	3.0	\$30.50			\$30.50	\$30.50	\$ 66,368
L110		DONUT MAN	869			0.0	\$0.00	\$41.00		\$41.00	\$50.00	\$ 43,450
	V	2 TENANTS	10,242			0.0				\$0.00	\$28.00	\$ 286,776
		50 TENANTS	61,668			0.0				\$0.00	\$29.00	\$ 1,788,372
						0.0				\$0.00		\$ 0
						0.0				\$0.00		\$ 0
						0.0				\$0.00		\$ 0
						0.0				\$0.00		\$ 0
						0.0				\$0.00		\$ 0
Total	9		89,411								\$28.99	\$2,591,609
Other Tenants												
O201		J & D ACCOUNTANTS	1,200	10-Jan-93	10-Jan-99	6.0	\$8.00		(\$0.75)	\$7.25	\$11.00	\$ 13,200
O202		STATE FARM INSURANCE	1,200	30-Mar-96	1-Sep-99	3.4	\$11.00			\$11.00	\$13.50	\$ 16,200
O20	V	VACANT	1,575			0.0				\$0.00	\$12.00	\$ 18,900
O104		COMMUNITY DENTISTS	7,665	1-May-97	1-May-02	5.0	\$9.00			\$9.00	\$11.50	\$ 88,148
						0.0				\$0.00		\$ 0
Total	4		11,640								\$11.72	\$136,448

Figure 8: SC3 Shopping Centre Valuations Summary - Example

LINE

3.1	Centre name	Valley Mall	Value date	1-Jul-97
3.2	Address	701 21st Ave SW	Centre class	Community
3.3	Municipality	Lethbridge	Centre GLA	201,031
3.4	Roll #	78932450	No. of tenants	15

Vacancy rates		Comments
3.5	Major	1.0%
3.6	CRUs	9.0%
3.7	Other	9.0%

Valuation factors		Comments
3.8	Other centre income	\$ 76,532
3.9	Vacant space shortfall \$/sf	\$ 5.00
3.10	Management allowance	4.00%
3.11	Capitalization rate	8.50%
3.12	Land value per sf	\$ 4.00
3.13	Excess land value / sf	\$ 3.50
3.14	Other value	\$ 0

Potential gross income		Vacant space shortfall
3.15	Market Rent Majors	\$ 641,580
3.16	Market Rent CRUs	\$ 2,591,609
3.17	Market Rent Other	\$ 136,448
3.18	PGI	\$ 3,369,636

Effective gross income		Value of excess land
3.19	Major vacancy	1.0%
3.20	CRU vacancy	9.0%
3.21	Other vacancy	9.0%
3.22	Sub-total	\$ 3,117,695
3.23	Other centre income	\$ 76,532
3.24	EGI	\$ 3,194,227

Net operating income		Value breakdown
3.25		
3.26		
3.27	Vacant space shortfall	\$ 50,472
3.28	Mgmt. %	4.0%
3.29	NOI	\$ 3,015,986

Market value		Value breakdown
3.27	Capitalization rate	8.50%
3.28	Value sub-total	\$ 35,482,000
3.29	Excess land value	\$ 903,000
3.30	Other value	\$ 0
3.31	Value conclusion	\$36,385,000

Value breakdown	
Site area	1,000,000
Land value per sf	\$ 4.00
Land value	\$ 4,000,000
Building value	\$32,385,000
Market value	\$36,385,000

Value per sf of GLA	
	\$181

5.1 Explanation of Valuation Forms

This section of the valuation guide explains how to use the accompanying spreadsheets. The shopping centre valuation procedure relies upon three spreadsheets or “forms”.

Due to the extensive formatting and the formulas interlinking data on the three sheets there is only one way to input data on these forms – by manual typing.

Form SC1 - Shopping Centre Data Entry

Form 1 is the beginning of the process where the property is identified, inspection notes are made and land use information is entered. Form 1 is reprinted on the next page with labels on all “cells” where information is to be entered on a line-by-line basis.

Form SC1: Identification

Line	Cell	Information
1.1	a	Name of shopping centre
1.1	b	Date of valuation
1.2	a	Address of shopping centre
1.3	a	Municipality
1.4	a	Roll #
1.5	a	Type of centre, e.g., community
1.6	a	Number of levels in centre & enclosed or open
1.7	a	Number of tenants in centre

Form SC1 – Shopping Centre Data Entry – Explanation

LINE

1.1	Centre	1.1a	Value date	1.1b
1.2	Address	1.2a		
1.3	Municipality	1.3a		
1.4	Roll #	1.4a		
1.5	CentreType	1.5a		
1.6	Levels & Enclosure	1.6a		
1.7	No. of Tenants	1.7a		

Inspection notes				
1.8	Inspection date/ time	1.8a	1.8b	
1.9	Centre quality	1.9a		
1.10	Vacancies	1.10a		
1.11	Extra features	1.11a		
1.12	Parking	1.12a		
1.13	Access	1.13a		
1.14	Customer activity	1.14a		
1.15	Condition	1.15a		
1.16	Other comment 1	1.16a		
1.17	Other comment 2	1.17a		

Land use and parking information		
1.18	Site area sf	1.18a
1.19	Bldg coverage sf	1.19a
1.20	Coverage ratio	1.20a

Excess land data		
1.21	Unusable land sf	1.21a
1.22	% Landscaping	1.22a
1.23	% Pedestrian area	1.23a
1.24	Minimum site size sf	1.24a
1.25	# Parking spaces	1.25a
1.26	Pkg required - zoning (Spaces per 1000 Sf of GLA)	1.26a

Form SC1: Inspection Notes

Line	Cell	Information
1.8	a	Inspection date
1.8	b	Time of inspection
1.9	a	Comments on centre quality
1.10	a	Number of vacancies observed
1.11	a	Extra features in centre, e.g., children's play area
1.12	a	Comments on parking availability, and parkade
1.13	a	Comments on site accessibility
1.14	a	Comments on customer activity
1.15	a	The condition of the centre buildings
1.16	a	Other comments or observations
1.17	a	Other comments or observations

Form SC1: Land / Building Area

The site area, building coverage and building coverage ratio are input in this section. If building coverage is unknown, reference can be made to site plot plan. If the centre is open and on one level, building coverage will be roughly equal to total GLA. The building coverage ratio (1.20a) is automatically calculated.

Line	Cell	Information
1.18	a	Site area (Sf)
1.19	a	Building coverage (ground floor area only, include common areas)
1.20	a	Coverage ratio = BUILDING COVERAGE ÷ SITE AREA

Form SC1: Excess Land Data

The information contained in this section is provided to assist in establishing the amount of excess land at the site. To aid in this determination, the form contains some “default” values. Three courses of action are possible:

1. If there is no excess land, no further input or action is required.
2. If the existence of excess land is unknown, use the default numbers to test the hypothesis that excess land may be present. Such calculations are completed on Form SC3.
3. If it appears that excess land exists, or if the default values indicate the possibility of excess land, the factors included in this section require research and updating. Analysis of the site’s highest and best use, including a review of local zoning by-laws and analysis of the plot plan, will be needed to make the final determination of excess land.

Line	Cell	Information
1.21	a	Unusable land, e.g., ravine; to be identified and measured by the assessor.
1.22	a	% of entire site that is landscaped - from zoning requirements; if unavailable, refer to section 3.8 of valuation guide. DEFAULT VALUE 4%.
1.23	a	% of site that is devoted to pedestrians, walkways, sidewalks, canopies etc. - from zoning requirements; if unavailable, refer to section 3.8 of valuation guide. DEFAULT VALUE 11%
1.24	a	Minimum site size for redevelopment - from zoning: if unavailable, the DEFAULT VALUE IS 25,000 (SF).
1.25	a	Number of parking spaces provided at the centre - from landlord’s records or from the <i>Canadian Directory of Shopping Centres</i> .
1.26	a	Parking spaces required under zoning, expressed as spaces per 1,000 Sf of GLA, e.g., 5.0.

Form SC2 - Shopping Centre Rent Roll Analysis

The second page of the spreadsheet to be used in the shopping centre valuation procedure is the analysis of rent rolls. This form is designed to assist in the determination of potential gross rent (PGI) and it is designed in column format.

The first shaded row identifies the property and the date of the roll. The spaces marked with “xxx” contain information that will be filled in automatically from the input made in Form SC1. The date of the roll (cell ‘aa’) is required at the end of this first line.

The remainder of Form SC2 is divided into three sections: major tenants (A), CRU tenants (B), and other tenants (C). The information input will be the same type for each section.

In order to ensure proper application of the valuation procedure, the assessor should go through the rent roll to determine all major (anchor) tenants at the shopping centre and enter this information in the appropriate line in the major tenants section (A).

If there is a large office component, the office tenants should go in the other tenant section (C). However, if there are not many office tenants and if the vacancy ratio for such tenants is the same as the CRU vacancy ratio, all other rent roll information can be entered in the CRU tenants section (B).

Note: The CRU tenant and other tenant sections have a “macro” function button that will add five additional rows automatically for inputting more tenant data.

Column-by-Column Input - Form SC2

- Information to be input in columns 2.1 to 2.12 arises from the rent rolls provided by the landlord.
- Information in column 2.13 is the assessor’s judgment of the market rent for that space. Refer to section 3.4 of the valuation guide for guidelines on how to determine market rent.

Input

Col	Cells	Information
2.1	A,B,C	LOC or location identification – usually provided by landlord on rent roll.
2.2	A,B,C	Cd or code. Input “V” if space is vacant. Can also be used to “code” tenant data by type of retail space for comparison purposes, e.g. Bk = bank.
2.3	A,B,C	Tenant Trade Name, e.g., Tip Top Tailors as opposed to the corporate owner’s name of Dylex (assists in rent comparisons).
2.4	A,B,C	Rent Area. Attempt to convert all tenant space to GLA area. If rent roll provides other area, e.g., gross or net area, indicate the basis for the area measurement at the top of column 2.4.
2.5	A,B,C	Lease Dates Start. Enter day-month-year, e.g. 2-Jul-95, that the lease commenced.
2.6	A,B,C	Lease Dates End. Enter the day-month-year that the lease finishes.
2.7	A,B,C	Lease Term in years.
2.8	A,B,C	Base (or Face) Rents per square foot. Rent rolls may supply annual figures for comparison purposes, convert these numbers to amounts per square foot. (Add a column to the spreadsheet and divide annual rents by 365 and input number into col 2.8.).
2.9	A,B,C	Overage Rents -- \$ per Sf. (May or may not be available from rent roll.)
2.10	A,B,C	Adjustments per square foot. The total of CAM, inducement or other adjustments affecting the net rent should be entered here. Refer to 3.4 of valuation guide.
2.11	A,B,C	Net Rent (calculated automatically based on inputs.) = BASE RENT + OVERAGE RENT + ADJUSTMENTS
2.12	A,B,C	Market Rent (Input by Assessor.) If net rent reflects market rent, then input net rent. Otherwise determine market rent.
2.13	A,B,C	Market Rent Total (calculated field.) = AREA X MARKET RENT

Form SC3 - Shopping Centre Valuation Summary

The third page of the spreadsheet puts all the information together to arrive at a value for the shopping centre. In addition, a land building breakdown calculation is provided if it is needed to complete the assessment.

Data input is only required in two sections of Form SC3: Vacancy Rates and Valuation Parameters (Lines 3.5 to 3.14). Values are to be entered and space is provided for comments (if desired). Data for all other cells is either a result of a calculation or input entered on Form SC1 or Form SC2.

Form SC3: Vacancy Rates

Line	Cell	Information
3.5	a,b	Vacancy Rate for Major tenants. 1% suggested - Refer to section 3.5 of the valuation guide. Cell 3.5 (b) provides room for comments.
3.6	a,b	Typical Vacancy Rate for CRU Tenants. Refer to section 3.5 of the valuation guide. Data from Schedule III <i>Vacancy Allowances</i> .
3.7	a,b	Typical Vacancy Rate Other Tenants. Refer to section 3.5 of the valuation guide. Input to be determined by assessor.

Form SC3: Valuation Parameters

Line	Cell	Information
3.8	a,b	Other Centre Income. Data found from Owner's <i>Income and Expense Statement</i> under Other or Miscellaneous Income.
3.9	a,b	Vacant Space Shortfall. Data from Schedule V <i>Vacant Space Shortfall</i> .
3.10	a,b	Management Allowance. Data from Schedule IV <i>Unrecovered Operating Expense</i> .
3.11	a,b	Capitalization Rate. Refer to section 3.7 of the valuation guide. Data from Schedule VI <i>Capitalization Rates</i> .
3.12	a,b	Land Value per Sf. Rate to be applied to value of the entire site. To be determined by assessor – <u>if required</u> .
3.13	a,b	Excess Land Value per Sf. Rate to be applied to the excess land, may be lower, higher, or the same as the rate applied to the entire centre (3.9). To be determined by the assessor.
3.14	a,b	Other Value. Apart from excess land, the value of any other item to be added to the income total. To be determined by the assessor.

Form SC3 – Shopping Centre Valuation Summary - Explanation

LINE

3.1	Centre name	XXX	Value date	XXX
3.2	Address	xxx	Centre class	xxx
3.3	Municipality	xxx	Centre GLA	xxx
3.4	Roll #	xxx	No. of tenants	xxx

Vacancy Rates		Comments	
3.5	Major	3.5a	3.5b
3.6	CRUs	3.6a	3.6b
3.7	Other	3.7a	3.7b
Valuation factors		Comments	
3.8	Other centre income	3.8a	3.8b
3.9	Vacant space shortfall \$/sf	3.9a	3.9b
3.10	Management allowance	3.10a	3.10b
3.11	Capitalization rate	3.11a	3.11b
3.12	Land value per sf	3.12a	3.12b
3.13	Excess land value / sf	3.13a	3.13b
3.14	Other value	3.14a	3.14b

Potential gross income		
3.15	Market rent majors	xxx
3.16	Market rent CRUs	xxx
3.17	Market rent other	xxx
3.18	PGI	xxx

Vacant space shortfall	
Actual vacancy	xxx
Typical vacancy	xxx
Costs per sf	3.9a
Shortfall	xxx

Effective gross income		
3.19	Major vacancy	3.5a xxx
3.20	CRU vacancy	3.6a xxx
3.21	Other vacancy	3.7a xxx
3.22	Sub-total	xxx
3.23	Other centre income	3.8a
3.24	EGI	xxx

Value of excess land	
Building coverage	xxx
Pedestrian area	xxx
Landscaping sf	xxx
Parking area	xxx
Required site	xxx
Unusable land	xxx
Site area	xxx
Excess land	xxx
\$ per sf	3.13a
Excess value	xxx

Net operating income		
3.27	Vacant space shortfall	xxx
3.28	Mgmt. %	3.10a xxx
3.29	NOI	xxx

Market value		
3.27	Capitalization rate	3.11a
3.28	Value sub-total	xxx
3.29	Excess land value	xxx
3.30	Other value	3.14a
3.31	Value conclusion	xxx

Value breakdown	
Site area	xxx
Land value per sf	3.12a
Land value	xxx
Building value	xxx
Market value	xxx

Value per sf of GLA	xxx
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Form SC3 – Shopping Centre Valuation Summary

Explanation of Calculations

LINE

Potential gross income		
3.15	Market rent majors	From Form SC2
3.16	Market rent CRUs	From Form SC2
3.17	Market rent other	From Form SC2
3.18	PGI	Sum of Above

Effective gross income		
3.19	Major vacancy	Cell 3.5a RATE x Mkt. Rent Majors
3.20	CRU vacancy	Cell 3.6a RATE x Mkt. Rent CRUs
3.21	Other vacancy	Cell 3.7a RATE x Mkt. Rent Others
3.22	Sub-total	Total PGI - Vacancy amounts
3.23	Other centre income	Cell 3.8a
3.24	EGI	Sub-total +Other Mall Income

Net operating income		
3.26	Vacant space shortfall	
3.27	From Vacant Shortfall calc.	
3.28	Cell 3.10a	EGI x Mgmt % Rate
3.29	NOI	EGI - Shortfall - Mgmt.

Market value		
3.27	Capitalization rate	Cell 3.11a
3.28	Value sub-total	NOI / Cap rate
3.29	Excess land value	From Excess land calc.
3.30	Other value	Cell 3.14 a
3.31	Value conclusion	Sub-total + Excess Land + Other

Value per sf of GLA	Total Value / GLA
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Vacant space shortfall	
Actual vacancy	Sum of vacancies from Form SC2
Typical vacancy	Calc. from Vacancy rates (3.5a -3.7a)
Costs per sf	Cell 3.9a
Shortfall	Typical Vacancy x Cost

Value of excess land	
Building coverage	From Form SC1
Pedestrian area	% from SC1 x Bldg Cover
Landscaping sf	% from SC1 x Site Area
Parking area	GLA / 1000 x Spaces per 1000 x 375 sf
Required Site	Sum of Above
Unusable land	From Form SC1
Site area	From Form SC1
Excess Land	Site Area - Required Site - Unusable Land
\$ per Sf	Cell 3.13a
Excess Value	Excess Land x \$ per SF

Value breakdown	
Site area	From Form SC1
Land value per sf	Cell 3.12 a
Land value	Site area x value
Building value	Mkt Value - Land value
Market value	= Value Conclusion

6.0 Appendices

A. Request for Property Information

Province of Alberta Assessment Department

As part of the ongoing assessment process the Assessment Department requires certain income and expense information from you pertaining to the property identified as:

Name	
Address	
City	
Roll #	

Authorization for such requests arises out of section 295 of the Alberta Municipal Government Act (the Act). Any information received will be treated in a confidential manner as outlined in the Act. Failure to provide information has potential consequences as outlined in the Act.

Information Required

Rent Roll pertaining to the subject property for the period covering: **July 1997**

1996 Income and Expense Statement pertaining to the subject property

1997 Income and Expense Statement pertaining to the subject property

Information Format

Information can be submitted in either **electronic** (by computer disk), or **paper format**, or by filling in the **enclosed forms**. Our preference is to receive **both electronic and paper formats**.

Information can be submitted in the format used by the property owner but at a **minimum** the following information should be provided:

Minimum Information Requirement on Each Tenant - Rent Roll Information

- * Location number
- * Tenant (trade) Name
- * Gross leasable area
- * Lease start date
- * Lease end date
- * Base rent (per month total, year total, or annually per square foot)
- * Overage rent (per month total, year total, or annually per square foot)

Include information on all tenants and vacant space. Indicate the date of the Rent Roll.

Minimum Information Requirement from Income and Expense Statement

- * Rental Income Totals (all forms of rent)
- * Other Income
- * Expense Recoveries
- * Tax Recoveries
- * Other Recoveries
- * Operating Expense Total
- * Realty Taxes

Income and Expense Information – Request form

TO BE FILLED OUT IN CASES WHERE INCOME AND EXPENSE INFORMATION IS OTHERWISE NOT AVAILABLE

Centre:
Address:

RENTAL INCOME	1996	1997
RENTAL INCOME - BASIC		
PERCENTAGE OR OVERAGE RENT		
STORAGE RENT		
OTHER RENT		
OTHER INCOME		
TOTAL RENT		
EXPENSE RECOVERIES		
RECOVERIES - OTHER		
RECOVERIES - REALTY TAXES		
MISCELLANEOUS		
TOTAL INCOME		

OPERATING EXPENSES		
INSURANCE		
OPERATING		
MAINTENANCE		
CLEANING		
UTILITIES		
ADMINISTRATION		
MANAGEMENT		
LEASING AND PROMOTION		
OTHER EXPENSE		
TOTAL OPERATING EXPENSE		
REALTY TAXES		
TOTAL EXPENSE		

Schedule I & II – Example of Market Rents & CAM by Class of Mall - 1995

These figures are for illustrative purposes only - not to be used in property valuations.

Code	Store Type	Regional			Community			Neighbourhood		
		Low	Med	High	Low	Med	High	Low	Med	High
CAM - Schedule II		\$4.40	\$5.35	\$6.25	\$3.50	\$4.50	\$5.20	\$3.00	\$3.80	\$4.80
RENTS - Schedule I										
D1	Full line Department	\$3.50	\$4.50	\$5.50	\$4.00	\$4.50	\$5.00			
D2	Discount Department	\$4.00	\$5.50	\$6.25	\$4.00	\$5.50	\$6.25			
S	Super Markets		\$12.00		\$9.50	\$11.00	\$13.00	\$9.00	\$11.00	\$12.50
L1	Large Tenants (>6,000 sf)	\$7.00	\$14.00	\$22.00	\$6.00	\$12.50	\$19.00	\$4.50	\$9.50	\$17.00
L2	Large Tenants (>3,000 sf)	\$12.50	\$18.00	\$24.00	\$10.00	\$15.00	\$21.00	\$7.50	\$12.00	\$19.00
T1	High End CRUS	\$28.00	\$36.00	\$45.00	\$25.00	\$32.00	\$40.00		\$25.00	
T2	Typical CRU	\$24.00	\$30.00	\$35.00	\$18.00	\$27.50	\$32.00	\$12.00	\$18.00	\$23.00
T3	Low End CRU	\$16.00	\$26.00	\$30.00	\$13.00	\$21.00	\$24.00	\$8.00	\$13.00	\$15.00
S	Small CRU (<800 sf)	\$26.00	\$33.00	\$45.00	\$24.00	\$30.00	\$40.00	\$9.00	\$22.00	\$30.00
FC	Food Court	\$60.00	\$80.00	\$100.00	\$50.00	\$70.00	\$90.00		\$50.00	
K	Kiosks	\$90.00	\$140.00	\$200.00	\$75.00	\$125.00	\$150.00		\$60.00	
O	Office	\$6.00	\$10.00	\$16.00	\$5.00	\$10.00	\$14.00	\$4.00	\$8.00	\$11.00