This policy is made available to the public for informational purposes only. The policy is not binding on BC Assessment. It does not constitute legal advice. If there is a conflict between this policy and the relevant legislation (or case law), the legislation (or case law) prevails.

BC ASSESSMENT

Retail Properties Policy

Table of Contents

Purpose

This Assessment Policy ensures that BC Assessment (BCA) consistently values, classifies, and codes all general retail properties, excluding shopping centres.

Retail properties are all retail occupancies that are not included in a shopping centre.

This policy is made available to the public for informational purposes only. The policy is not binding on BC Assessment. It does not constitute legal advice. If there is a conflict between this policy and the relevant legislation (or case law), the legislation (or case law) prevails.

Policy Statements

1. Retail properties must be valued using a capitalized net operating income (NOI) approach except:
    - in areas where information to support an income valuation is not available, in which case a direct comparison approach or cost approach must be used; or
    - for properties where the current use is not the highest and best use (HBU), in which case it should be valued according to its alternative use or the cost approach must be used.
2. Retail rents, vacancy rates, expense rates, and capitalization rates must be reviewed annually.
3. Retail property land and improvement values must be apportioned using a building residual approach except:
    - in the case of an air space parcel;
    - for designated heritage properties; or
    - if the cost approach is used.
4. Retail buildings that have:
    - multiple tenants must use the reported net leasable area (NLA) as the units of measure.
    - a single tenant must use the reported gross building area (GBA) as the units of measure.
5. Retail properties with one or more significant non-retail rental components must use a separate model for those uses.
6. Retail models must have all model expenses combined into one general expense line.
7. Direct information request must be sent annually (Income & Expenses mail out)
8. Classification for retail properties must be Class 06 – Business and Other except where:
    - there are non-retail uses, in which case those areas shall be classified according to their use.
9. Retail property occupancies must be assigned as per Retail Property Occupancy Requirements.
10. Retail property adjustments must be coded as per Retail Property Adjustment Requirements.

Retail Property Requirements

Retail Property General Requirements

1. Retail properties must be valued using a capitalized net operating income (NOI) approach except:
    - in areas where information to support an income valuation is not available, in which case a direct comparison approach or cost approach must be used; or
    - for properties where the current use is not the highest and best use (HBU), in which case it should be valued according to its alternative use or the cost approach must be used.
2. Retail rents, vacancy rates, expense rates, and capitalization rates must be reviewed annually.
3. Retail property land and improvement values must be apportioned using a building residual approach except:
    - in the case of an air space parcel;
    - for designated heritage properties; or
    - if the cost approach is used.
4. Retail buildings that have:
    - multiple tenants must use the reported net leasable area (NLA) as the units of measure.
    - a single tenant must use the reported gross leasable area (GLA) as the units of measure.
5. General retail properties with one or more significant non-retail rental components must use a separate model for those uses.
6. General Retail models must have all model expenses combined into one general expense line.
7. Classification for retail properties must be Class 06 – Business and Other except where:
    - there are non-retail uses, in which case those areas shall be classified according to their use.

Retail Property Occupancy Requirements

1. Retail improvement occupancies must be applied as per Appendix 1: Retail Property Occupancy Standard.
2. Multi-tenant buildings must not have an individual income record for each occupant except for those units that have a distinct use or rent grade.

Note:	The intention of this is to minimize the number of income records for multi-tenant buildings where all units have the same use and rent grade.

3. Retail property occupancies occurring on shopping centre pads must be valued using an auxiliary shopping centre model and in accordance with the Shopping Centre Properties Policy.
4. Retail property occupancies must not be applied to occurrences within shopping centres except as noted in Shopping Centre Properties Policy.

Retail Property Adjustment Requirements

1. Adjustments to retail properties or models must be accompanied by explanatory notes and supporting market evidence as per the following table:

Adjustment Type	Requirement
Manual Adjustments	Any available evidence
Chattels, Furniture Fixtures & Expenses, TI Improvements	Any available evidence
Model Adjustments	Market Study
Size Adjustments	Market Study

2. Retail buildings that are not fully built-out with tenant improvements (TI) must be valued:
    - as if leased up to market conditions within the competitive market set; and
    - reduced by the present value of the improvements necessary to finish the building to the extent required to attract tenants.

Resources

Definitions

- Refer to the BC Assessment Glossary page for term definitions.

Related Policies

- Highest and Best Use Policy
- Industrial Properties Policy
- Industrial, Commercial, and Investment (ICI) Land Policy
- Non-Realty Value Policy
- Shopping Centre Properties Policy

References

- *Prescribed Classes of Property Regulation*, B.C. Reg. 438/81

This policy is made available to the public for informational purposes only. The policy is not binding on BC Assessment. It does not constitute legal advice. If there is a conflict between this policy and the relevant legislation (or case law), the legislation (or case law) prevails.

Appendices

Appendix 1: Retail Property Occupancy Standard

Occupancy	Size	Age	Defining features	Other features
Bank	Any; typically 1,500 to 4,000 sqft	Any	Detached building; bank vault inside	Any or none of: on-site parking
Food Market	Typically 20,000 to 50,000 sqft	Any	Detached, single storey building with on-site parking or anchor tenant for shopping centre	Any or none of: other use such as liquor store on site (detached premises)
Fast Food Restaurant	Typically 2,000 to 4,000 sqft	Any	High traffic location; counter or drive-through service; limited seating	Any or none of: part of a chain on-site parking located on a pad on a shopping centre site
Restaurant/Pub	Any; typically 2,000 to 10,000 sqft	Any	High traffic location; table service	Any or none of: part of a chain on-site parking located on a pad on a shopping centre site
Big Box	Typically 60,000 sqft +	Any; typically post-1990	Large, detached, single-storey building with on-site parking	Part of a chain
General Retail	Any	Any	Individual business fronting on the sidewalk/street	Any or none of: parking in rear lane or elsewhere on-site single or multi-tenant building single or multi-use building
Retail Convenience	Any; typically less than 6,000 sqft	Any	High traffic or residential neighbourhood location; often	Any of none of: parking in rear lane or elsewhere on-site single or multi-tenant building single or multi-use building

Occupancy	Size	Age	Defining features	Other features
			connected to service station	
Theatre (Live and Cinema)	Any	Any	Seating areas typically rise away from the stage or screen on a slope or stepped incline	Live performance of film screening Free standing or part of a larger multi-use building (i.e., shopping centre)

Appendix 2: Frequently Asked Questions

1. **How should a retail building which has not been fully built-out with TIs be valued?**

   Value the building as if leased up to market conditions within the competitive market set and deduct the present value of the improvements necessary to finish the building to a state that would attract tenants. Refer to Non-Realty Value Information and Treatment Policy for more information

2. **How should recovery income be treated?**

   The Canadian Institute of Chartered Accounts standards of practice for the real estate industry is to report operating costs and taxes recovered from tenants in the income statement as revenue. This income is typically described as additional rent or recoveries. Total operating costs and property taxes are reported in the income statement as expenses; notwithstanding the leases allow certain specific costs to be recovered from the tenant. The BC Assessment standard is to treat lessor and lessee expenses as total expenses in the income and expense statements. Recoverable expenses may be deducted from total expenses to establish non recoveries or owner's direct contribution to (may be nil if leased on Absolute Net basis). Since some lessors may recover more expenses from tenants that are attributable to the overall expenses, recoveries may be an additional source of general retail income. Both tenant's and lessor's expenses must be known and analyzed for comparison with other properties in the competitive market set. These expenses are typically reported annually and should be analyzed on the basis of dollar per square foot of rentable area to establish dollar per square foot for recoverable expenses and lessor expenses. Finally, the ratio of total lessor's operating expense to effective gross income should be determined.

3. **Should short-term loan tenancies be valued with a bank occupancy and an adjustment for TIs?**

   No. Use a general retail occupancy and apply a manual non-variable adjustment at the income record level for the presence of a vault, if applicable. Short-term loan tenancies tend to reflect general retail space rather than bank space with higher ceiling heights and superior TI finish.

4. **How should mini or baby box properties such as London Drugs, Sport Mart, and Canadian Tire be valued?**

   Mini or baby box stores which meet the size threshold identified in the definitions section will be valued according to a general retail (big box) model