BC ASSESSMENT

Shopping Centre Properties Policy

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Purpose

This Assessment Policy ensures that BC Assessment (BCA) consistently values, classifies, and codes all shopping centre properties.

Shopping Centres Importance

Shopping Centres are tracts of land, under individual or joint real estate ownership or control, improved with a coordinated group of retail buildings with a variety of stores and free parking.

It is important that BCA adhere to this policy to:

- ensure adherence to legislation and related legal direction on property classification;
- produce and accurate and uniform assessment roll;
- ensure shopping centre properties are consistently assessed and systemized; and
- provide shopping centre property owners and local governments with reliable property assessments.

Policy Statements

1. Shopping centre properties must be valued as per the Shopping Centre Property Valuation Requirements.
2. Shopping centre rents, vacancy rates, expense rates, and capitalization rates must be reviewed annually.
3. Shopping centre income models must be created and maintained at the provincial level.
4. Classification for shopping centre properties must be Class 06 – Business and Other except where:
    - there are non-shopping centre uses, in which case those areas shall be classified according to their use.
5. Shopping centre occupancies must be assigned as per Shopping Centre Property Occupancy Requirements.
6. Shopping centre property adjustments must be coded as per Shopping Centre Property Adjustment Requirements.

Shopping Centres Requirements

Shopping Centre Property Valuation Requirements

1. Shopping centre 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. Shopping centre 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.
3. Shopping centres must use the reported gross leasable area (GLA) as the units of measure.
4. Economic rates for shopping centres must be rounded to the nearest 25 cents (per annualized period).
5. Shopping centres with one or more significant non-shopping rental components (e.g., hotel, office building, etc.) must use a separate model for those uses.
6. One of the income records must be marked as the Primary Record.
7. Mixed-use tenancies less than 20,000 square feet GLA must be valued through a general retail model.
8. Retail general occupancies occurring on shopping centre pads must be valued through application of an auxiliary shopping centre model.
9. Freestanding service stations on shopping centres pads will be valued according to Industrial Properties Policy.
10. Shopping centre models must have all model expenses combined into one general expense line.

Shopping Centre Property General Requirements

1. Shopping centre rents, vacancy rates, expense rates, and capitalization rates must be reviewed annually.
2. Shopping centre income models must be created and maintained at the provincial level.
3. Classification for shopping centre properties must be Class 06 – Business and Other except where:
    - there are non-shopping centre uses, in which case those areas shall be classified according to their use.

Shopping Centre Property Occupancy Requirements

1. Shopping centre occupancies must be assigned as per Appendix 2: Shopping Centre Property Occupancy Standard.
2. Shopping centre occupancies must be defined on the basis of size since this is the only uniform method of stratifying these highly variable properties.
3. Units of the same type must be combined into one income record except:
   - anchor tenants must be split out; or
   - for different floors of the building where:
     - a building is not uniform in rentable floor area for each floor;
     - economic rates vary significantly between floors;
     - one or more floors are not built-out; or
     - a (variable) floor adjustment is required to account for impact of floor height on economic rates.

Note: The intention of this is to minimize the number of income records for shopping centre properties where all units have the same use and rent grade.

Shopping Centre Property Adjustment Requirements

1. Adjustments to shopping centre 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 & Equipment (FF&E), Tenant Improvement Costs	Any available evidence
Model Adjustments	Market study
Size Adjustments	Market study

2. Vacancy and expense adjustments must be expressed as a percent of potential gross income.

Resources

Definitions

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

Related Policies

- Industrial Properties Policy
- Parking Improvements Properties Policy

Appendices

Appendix 1: Frequently Asked Questions

1. **What is the threshold in size between general retail and shopping centre occupancies?**

   A shopping centre model should be applied to a multi-tenant retail property when the total tenancies exceed 20,000 square feet.

2. **Should a new occupancy be developed for neighbourhood shopping centres that are enclosed to differentiate these centres from the more common unenclosed neighbourhood centres? Same question for power centres.**

   No. The number of historic occupancies were purposely reduced to improve uniformity.

   It is possible to differentiate between the two types of neighbourhood centres by creating separate models with different economic rates, expenses, etc.; however, first determine whether the difference can be accommodated through a non-variable adjustment at the model level.

   Similarly, power centres, which are specialty forms of neighbourhood and smaller community centres, can be included in one or more separate models per area, if necessary to account for differences in economic rates and expenses, etc.

   The key to tracking neighbourhood centre models that include power centres will be the model description.

3. **Which lease agreements should be analyzed in determining economic rates?**

   The best evidence of economic rates (market rents) will be new direct transactions. Renewals, blend and extend, and extensions may be considered if direct transactions are limited.

4. **How should the economic rate for commercial retail units (CRUs) be determined?**

   The economic rate for CRU space for each quality in a shopping center model will be equivalent to the ratio of total annual economic CRU rent per quality (numerator) and the total of all CRU space (denominator) for all properties within the competitive market set.

5. **How is rental income related to kiosks and retail merchandising units to be treated?**

   A kiosk GLA unit of measure has been created to be used in association with shopping centre models. In developing economic rates for kiosk units of measure, it will be important to recognize that reported rents may be percentage based since they represent an opportunity for a trial of a retail concept or a new tenant.

6. **What is the appropriate ratio of parking to mall GLA for a shopping centre?**

   Industry associations and sources such as the Urban Land Institute have established a range of recommended parking ratios for shopping centres based on the percentage of total centre GLA in combined cinema, restaurant, and entertainment uses.

An excerpt from the Urban Land Institute 2003 publication entitled Parking Requirements for Shopping Centres is provided below, based on a survey of 450 shopping centres.

Parking supply ratios by centre type (Parking Requirements for Shopping Centres – Urban Land Institute 2003) are listed below.

Centre Type	**Parking Supply Ratio (spaces per 1,000 square feet occupied GLA)**		
	Low	Average	High
Neighbourhood	1.4	4.9	8.6
Community	0.6	4.7	11.7
Regional	2.2	5.3	7.3
Super Regional	3.4	5.0	6.4
Fashion/Specialty	4.6	5.3	6.0
Power	2.4	5.2	7.4
Theme/Entertainment	3.0	5.9	12.1

It is important to note the distinction between traditional and new categories of shopping centres, such as community and fashion/specialty centres is becoming less distinct.

Factors that will impact the available parking and parking utilization in shopping centres include:

- local government minimum standards for number of stalls, size of parking stalls, fire lanes, internal roads, etc.
- efficiency of parking design
- requirement for lessors to provide employee parking (typical during off-season)
- overflow parking from adjacent land-use
- number of peak shopping days (e.g., pre Christmas sales, holidays)
- number of special events hosted
- requirement to store snow accumulated through snow plowing

According to ULI research, most shopping centres have at least one excess parking space for each 1,000 square feet of GLA, for centers less than 600,000 square feet GLA, with the ratio dropping to 0.5 for centres over 600,000 square feet GLA.

The parking evaluation is critical for HBU analysis. Refer to Highest and Best Use Policy for treatment of potential excess Land.

7. Why is it necessary to record recovery income as a separate occupancy?

Although recovery income does not relate to a distinct physical structure but the entire shopping centre, it is necessary to identify this income component separately since it may be a separate source of income (in addition to rents) for shopping centres. Recovery income arises when lessors recover more expenses from tenants that are attributable to the overall expenses.

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 (BCA) standard is to treat tenant and lessor expenses as total expenses in the income and expense statements.

Recoverable expenses may be deducted from total expenses to establish non-recoveries or the owner’s direct contribution to expenses (may be nil if leased on absolute net basis).

Both lessee’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.

8. **Why is it necessary to record both a general vacancy amount for anchor tenants and a line vacancy for each additional shopping centre occupancy (e.g., Food Court, CRUs, etc.)?**

   It is generally viewed that secure long-term lease agreements associated with anchor tenants have lower vacancy and bad debt loss when compared to the typical leases associated with CRU tenants. For this reason, it is practical for anchor tenant space and out-parcels (or out-lots) to attract lower vacancy loss allowance when compared to CRU space.

   Therefore, the general vacancy field should be used for the predominant retail occupancy (e.g., SCM anchor GLA) within the shopping centre model and the vacancy line field used for the unique occupancy types as an override to the general vacancy.

Appendix 2: Shopping Centre Property Occupancy Standard

Occupancy Description	Size	Age	Defining features	Other features
Big Box Store	Smaller Markets: 25,000 – 60,000 sqft Conventional: 60,000 – 150,000 sqft	Any	Generally specialized retail facilities intended to drive competition from a market by offering greater depth in a particular retail area (e.g., sports, home furnishings, drug store). Often characterized by warehouse style construction Associated with various degrees of interior finishing ranging from minimal to department store equivalent	Typical national tenants include, but are not limited to: ○ Canadian Tire; ○ Home Depot; ○ Lowes; ○ Rona; ○ Walmart; ○ Real Canadian Superstore; ○ Costco; ○ Ikea; ○ Staples; and ○ various furniture stores.
Neighbourhood Shopping Centre	+30,000 – 10,000 sqft (average 50,000 sqft)	Any	Provides convenience shopping for day-to-day needs of consumers in the immediate neighbourhood. Most of these centers are anchored by a supermarket and/or large drug store. Usually configured in a straight-line or L-strip with an open concept – no enclosed walkway or mall area. A collection of a strip of retail tenancies on separate properties on a street front is not a shopping centre.	Generally single story with a site area of three to 10 acres. Variation in ownership, including private owners and pension funds-REITS.
Community Shopping Centre	+100,000 – 450,000 square feet	Any	Offers a wider range of apparel and other soft goods than neighbourhood centers. Most of these centers are anchored by multiple anchors, including a supermarket, super drugstores, and discount department stores.	Single or multi-story with a site area of 10 to 30 acres. Ownership typically concentrated in Pension funds, REITS, and large publicly traded RE firms.

Occupancy Description	Size	Age	Defining features	Other features
			May include big-box type category killers selling apparel, home improvements, toys, electronics, or sporting goods. Multiple configurations; straight-line, L-, or U-shape with an open or enclosed concepts. Current trend is conversion of older enclosed centers to open concepts as part of mall revitalization and rebranding.	
Regional Shopping Centre	+400,000 – 900,000+ square feet	Typically built late 1960s to early 1980s	Provides general merchandise and services in depth and variety. Main attraction is combination of anchors with numerous fashion oriented specialty stores. May include some category killers selling apparel, home improvements, toys, electronics, or sporting goods. Multiple configurations; pods, L-, or H-shape with an enclosed concept. Typical inward orientation of stores connected by a common walkway. Surface and/or underground or garage parking surrounds the perimeter.	Typically multi-story for all or part of the mall with a site area of 10 to 60 acres. Ownership typically concentrated in Pension funds, REITS, and large publicly traded RE firms.