

Appendix H



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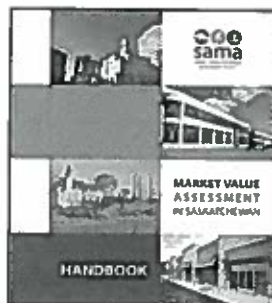
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The following document is an unofficial version of the Market Value Assessment in Saskatchewan Handbook. This Handbook is amended from time to time and the version shown may not be up to date. One may contact SAMA (Technical Standards & Policy Division) for the most current version of this Handbook, which should be consulted for all purposes of application.

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Handbook Overview
Preface
Table of Contents

A. Overview

- Chapter 1 Introduction
- Chapter 2 Valuation Parameters
- Chapter 3 Depreciation Analysis Guide

B. Valuation Guides: Residential

- Chapter 4 Multi-Residential
- Chapter 5 Manufactured Home Communities

C. Valuation Guides: Commercial

- Chapter 6 Warehouse
- Chapter 7 Strip Commercial Properties
- Chapter 8 Office Building
- Chapter 9 Shopping Centre
- Chapter 10 Gas Station
- Chapter 11 Hotel/Motel
- Chapter 12 Golf Course

D. Valuation Guides: Special Purpose

- Chapter 13 Special Purpose Properties
- Chapter 14 Grain Elevator

E. Appendices

- Appendix 1 Data Collection Forms Examples
- Appendix 2 Resources

F. Glossary

Disclaimer

The Market Value Assessment in Saskatchewan Handbook is produced for the purpose of determining the assessed value of land and improvements for non-regulated property assessments in compliance with the assessment provisions of the municipal Acts. This handbook should not be used for any other purpose.

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Market Value Assessment in Saskatchewan Handbook

Warehouse

Valuation Guide



Warehouse Valuation Guide

Market Value Based Assessment Legislation in Saskatchewan

Saskatchewan has different assessment legislation¹ than other jurisdictions in Canada that must be taken into account when valuing properties for assessment and taxation purposes. There are specific definitions in Saskatchewan for “base date”, “market value”, “Market Valuation Standard” and “mass appraisal”. It is important to understand how these definitions relate to one another and the requirement for market value based assessments to be determined in accordance with the Market Valuation Standard.

Base Date is defined as “...the date established by the agency for determining the value of land and improvements for the purpose of establishing assessment rolls for the year in which the valuation is to be effective and for each subsequent year in which the next revaluation is to be effective;” (Refer to the Preface for specific base dates.)

Market Value is defined as the “...amount that a property should be expected to realize if the estate in fee simple in the property is sold in a competitive and open market by a willing seller to a willing buyer, each acting prudently and knowledgeably, and assuming that the amount is not affected by undue stimuli.”.

Market Valuation Standard means the “standard achieved when the assessed value of property:

- (i) is prepared using mass appraisal;
- (ii) is an estimate of the market value of the estate in fee simple in the property;
- (iii) reflects typical market conditions for similar properties; and
- (iv) meets quality assurance standards established by order of the agency;”

Mass appraisal is defined as “...the process of preparing assessments for a group of properties as of the base date using standard appraisal methods, employing common data and allowing for statistical testing;”.

Assessment legislation in Saskatchewan requires that non-regulated property assessments be determined pursuant to the Market Valuation Standard. Throughout this Handbook the term “market value based assessments” is used to refer to non-regulated property assessments. Unlike single property appraisals, market value based assessments must be prepared using mass appraisal and “...shall not be varied on appeal using single property appraisal techniques”. All Handbook references to market value are subject to the requirements of the Market Valuation Standard.

¹ The following Acts provide the statutory basis for property assessment in Saskatchewan:

- *The Assessment Management Agency Act*
- *The Interpretation Act, 1995*
- *The Cities Act*
- *The Municipalities Act*
- *The Northern Municipalities Act, 2010*

For more details on how to access this information refer to Appendix 2: Resources - Section 2a (Queen’s Printer).

3.0 Warehouse Valuation Process

3.1 Overview of the Procedure

- 1) Collect appropriate information.
- 2) Analyse data and classify warehouses into homogeneous groups.
- 3) Select the appropriate approach to value:
 - Income approach
 - Sales comparison approach
 - Cost approach
- 4) Apply method(s) to derive market value based assessments.
- 5) Add / deduct for other appropriate value, if required.
- 6) Determine a market value based assessment of the property.
- 7) Test results.

3.2 Collecting the Appropriate Data

More than any other factor, the type and quality of information available dictate the methods that can be used to value properties. Uniform and accurate valuation of property requires correct, complete, and up-to-date property data. The effort put in at the information collection stage will determine the quality of the final analysis.

Supporting Information

Sources of supporting information include: warehouse building owners/managers, real estate consultants and brokers, real estate publications, industry associations and government sources.

Property Information

To compare, classify and develop valuation parameters for warehouse buildings, it is necessary to obtain pertinent physical and descriptive information. Typical information that could be collected for a property and entered into the assessor's valuation system is shown on the Warehouse Data Entry Example. (Refer to Figure 5.)

Assessment Records

Where possible, the assessor will verify the existing assessment record information when inspecting the property. Where the information is not available or obtainable from inspection, the property owner (or the designated contact person) is typically contacted to provide the following information:

- Year built,

- **Size,**
 - area of site;
 - floor areas;
 - building dimensions;
 - heights;
 - number of floors; and
- Construction dates.

Property Inspection

To keep existing records up to date, all assessed properties are generally inspected from time to time. The following types of items may be noted when inspecting a warehouse property:

- Physical measurements of the warehouse;
- Type of warehouse/goods handled (e.g., storage, cold storage, distribution);
- Quality of building;
- Other buildings/improvements on site;
- Condition of improvement;
- Construction class (materials e.g. wood, concrete or steel);
- Floor loading/floor thickness;
- Wall height;
- Truck door/dock type;
- Quality and amount of office space;
- Type of heating/air conditioning;
- Sprinkler system;
- Location/access;
- Lot size site;
- Site characteristics (topography, drainage and utility lines)
- Layout / design;
- Recent renovations;
- Functionality of property;
- Photograph of the property.

Where there appears to be surplus or excess land, the assessor may note this on the record and review the zoning and land use by-laws governing the property to decide how to value the surplus or excess land.

An analysis of the property information and property inspection information will enable the assessor to arrive at conclusions about:

- The characteristics and nature of the warehouse building market in the jurisdiction and/or market area;
- Typical vacancy and collection loss factors;
- Typical management and operating expenses; and
- Typical market rents for various types of buildings and various types of space (office, retail, storage, etc.).

Income Data

If the income approach is to be used, then income and expense information is collected. However, even if the income approach is not used, information such as market rents and vacancy rates can assist in estimating depreciation and obsolescence. To collect the appropriate property income related information the assessor could send a Request for Information Form to the warehouse building property owner (or the designated contact person). (*Refer to section 9.0 for examples.*) If possible, request the following information.

- Gross leasable areas (GLA);
- Rents and financial information, including other income (if any);
- Records and details of tenant inducements;
- Vacancy rates and collection loss;
- Operating expenses;
- Copies of leases; and
- Unrecovered expenses.

Sales Data

Sales data should be collected whenever possible. Even though there may not be a sufficient number of sales to use the sales comparison approach for a certain class of warehouses, the sales information may still be useful in the development of market-based depreciation schedules in the cost approach, and in the derivation of capitalization rates or discount rates. The assessor can request the following type of information:

- Property address and legal description;
- Sale price;
- Date of transfer;
- Instrument number;
- Name and address of vendor and purchaser;

- Interests transferred (fee simple or other);
- Financing conditions; and
- Value of chattels.

Construction Costs

The construction costs of a building can be estimated from a number of different cost publications such as *Marshall Valuation Service* which are complete, authoritative guides for developing estimates of costs and depreciation for commercial buildings and other improvements. Current cost and depreciation data adjusted to the local market is also required for the cost approach.

In determining the value of a particular type of property, it is also useful to analyse local construction costs. Therefore, assessors may ask warehouse owners for construction cost data for all new warehouses and all major reconstruction work. It may also be useful to consider the information provided on any building permit. The analysis of local cost data may assist in confirming rates found in cost publications.

When analysing construction cost data, exercise caution to ensure that the local costs reflect the cost of all assessable items and only those items that are assessable.

An Issue to Consider in the Collection of Data: Measurements

Under ideal conditions, all building areas would be measured and reported in the same manner and all building heights would reflect the same measure. In reality, the reporting of such measures can vary greatly.

Building structures are usually measured by either square footage or volume. It is important that when collecting and analysing this information that the units of comparisons are classified into groups with similar units of measurement.

Heights often reflect either the clear height, which is the distance measured from the top of the floor to the bottom of the lowest hanging overhead obstruction, or the structural height, which is the distance measured from the floor (top or bottom of one floor or ceiling— depending on the cost publication) to the top of the next floor or the structural steel of the roof. The height of the structural steel can vary between one and eight feet in height (depending on the size of the building and the type of construction).

Data Analysis

For the assessor to gain full value from the data collected, the data should be organized in such a way that meaningful comparisons can be made and valuation conclusions drawn. By collecting and organizing the data on a number of warehouse buildings it becomes possible to establish the typical performance, characteristics, and valuation parameters to apply in the valuation of other warehouse buildings.

Collecting and tabulating such data also enables the assessor to distinguish between the typical value of real estate components and the actual performance of a specific property. A market value based assessment determined through mass appraisal methods demands the application of a property's typical performance in the marketplace, not its actual performance. As noted in the Valuation Parameters Guide,

this requirement is established in the Market Valuation Standard mandated in legislation in Saskatchewan's municipal Acts.

3.3 Classifying the Warehouse

The following is a list of various types of warehouses:

- Storage warehouses - Designed primarily for storage; small percentage of total area may be office space;
- Distribution warehouses - Designed to accommodate breakdown and transshipment of goods; a larger percentage of the total area for office/sales;
- Mega-warehouses – Designed as large storage-distribution facilities; interior build-out is typically a small percentage of total area;
- Transit warehouses - Designed for temporary closed storage, freight segregation and loading; will have additional facilities for transient personnel;
- Cold storage warehouses - Designed to keep stored commodities at various temperature levels; and
- Mini-warehouses - Designed primarily to be rented for small self storage or noncommercial storage; may include some office-living space.

To facilitate the valuation process, the assessor groups warehouses into homogeneous classes. This process is commonly referred to as stratification. The ability to compare properties is also crucial in the mass appraisal process because it allows the assessor to determine typical market conditions.

The functionality, viability, and value of a warehouse is largely dependent on its characteristics: area, height, accessibility, location, truck or rail connections, number of truck doors, floor height, turnover or processing abilities, and competition from other warehouses. Therefore, the valuation of a warehouse property is based on the analysis and comparison of similar properties.

Establishing Warehouse Classes

The following characteristics are examples of attributes that can be used to classify warehouses:

- Function;
- Size;
- Age/condition;
- Percent of office space;
- Floor thickness and loading capacity;
- Height;
- Location; and
- Land/building ratio.

Classes

When the cost approach is used the classes can be further stratified by type of construction (steel, wood and concrete) and subdivided according to the quality of the facility for example: (excellent, good, average and low cost).

Figure 2: Net Operating Income Calculation Example

Procedure	Area SF	Rate	Amount
1. Establish PGI with typical net rent	50,000	\$5.35	\$267,500
2. Deduct typical vacancy		5.0%	-\$13,375
3. Establish EGI			\$254,125
4. Deduct typical unrecovered operating expense		9.0%	-\$22,871
5. Net Operating Income			\$231,254

Capitalize the Net Operating Income into Value

The value of the rental income stream is determined by capitalizing the net operating income.

$$\text{Value} = \text{Net Operating Income} \div \text{Capitalization Rate}$$

Establishing Capitalization Rates

Sales of Warehouse Buildings – Recommended Approach

Turning the equation in the income approach around produces the appropriate formula for establishing capitalization rates:

$$\text{Capitalization Rate} = \text{Net Operating Income} \div \text{Value (Sale Price)}$$

In the same manner that income and rents are analysed for property valuation purposes, the income and other data should be analysed for warehouse properties that have sold as of the base date in order to establish the capitalization rates to be applied to warehouse buildings.

Other Approaches

If there is insufficient market sales evidence to establish capitalization rates, there are other possible ways such as mortgage-equity or band of investments to derive rates. These other approaches are not suitable for use in mass appraisal valuations in Saskatchewan.

Other Sources

Published capitalization rate studies and similar reports may be used in some markets as a general check on the rates determined by the assessor.

Selection of a Capitalization Rate

Selection of an appropriate capitalization rate is essential to the estimation of an equitable and realistic value for a property. The selection task starts with an analysis of the capitalization rates demonstrated in the sales of similar warehouse properties.

The following comments are guidelines for selecting an appropriate capitalization rate.

A number of factors can affect the capitalization rate to be applied. In general, favorable conditions may lower the capitalization rate and raise the value; negative conditions may raise the capitalization rate and lower the value. Some of the issues to consider when establishing a capitalization rate are:

- Competition, and expected changes in competition,
- Location – access by roads, rail, etc.,
- Age and condition of the property,
- Design of the property, and
- Expansion capabilities.

After a review of the available information, appropriate statistical measures (median, mean, and range, etc.) can be determined for capitalization rates for each type of warehouse building. From this the typical capitalization rates can be determined for the group of properties being valued.

Effective Tax Rate

In some income valuation procedures, the capitalization rate is adjusted for taxation considerations. However, in the examples used in this valuation guide this adjustment is not required because net incomes are being used and taxes have been deducted as an expense.

4.4 Add / Deduct Other Values

There may be certain properties where the entire value of the property is not completely captured by the foregoing application of a given valuation approach. In these situations a lump sum adjustment may be required. For example, a property may have surplus or excess land which is not developed due to current market conditions. This land may be valued separately and added to the market value based assessment for the entire property. A similar lump sum adjustment may also be applied for improvements if warranted.

4.5 Market Value Based Assessment of Property using the Income Approach

When using the income approach, a market value based assessment is determined by establishing the typical net operating income generated through the foregoing analysis and applying the appropriate typical capitalization rate to this. Then if required, any additional value is added to this total to determine an overall market value based assessment for the property.

An example of a warehouse building valuation using the income approach is presented in *Figure 3 – Warehouse Income Analysis Example*.