

OFFICE MODEL

IDENTIFICATION of MODEL AREA

The Office model values the larger office properties in Regina, typically referred to as high-rise office towers. The Assessment Branch classifies these properties in the same manner as the local commercial office market; this model uses the descriptions provided in local industry publications and classifies these properties accordingly. The Office model typically applies to office properties in Regina classified as A, B+ and B as described in the 2011 Regina Office Market Report published by Avison Young Commercial Real Estate (Sask) Inc. Avison Young describes these buildings as follows:

Class A: Buildings that are at least 100,000 square feet, located in the central business district, with surrounding amenities and high visibility. Class A buildings located in suburban areas are 75,000 square feet for greater. These buildings are either new construction, have excellent tenant improvements or are high quality. On-site parking, elevators, unique design and build, steel and concrete construction and first-rate maintenance care are some of the qualifications Class A buildings would provide. Due to these factors, Class A buildings are able to ask for premium rental rates and high quality tenants.

Class B+: Buildings greater than or equal to 50,000 square feet. They provide many of the same positive features as Class A buildings; however, they are smaller in size and the finishes and overall quality can be less appealing than a Class A building. Class B buildings may not be situated in a prime location compared to Class A buildings. This corresponds with their ability to ask for slightly lower rental rates.

Class B: Buildings greater than or equal to 20,000 square feet that may not provide the same prime locations and building quality as Class A or B+ buildings. These buildings can be located in other areas than the central business district and may also be older structures. On-site parking, good quality upgrades and a satisfactory level of upkeep and maintenance are normally provided; however, these buildings may lack indoor parking or elevators and the overall quality of care is lower than a higher class building.

The Office model is a city-wide model in application. The majority of the properties valued by this model are located in the downtown central business district of Regina, generally bounded by Albert Street (west), College Avenue (south), Broad Street (east) and Saskatchewan Drive (north). A small number of existing properties and buildings under construction are located in suburban areas, including Grasslands and Albert Street in Southwest Regina, and Blackfoot Drive and the Research Park (located at the University of Regina) in South Regina.

All of these properties are located on commercially-zoned land with various zoning classifications depending on location. The majority of the downtown core properties are zoned D (Downtown) or C (Contract), with a few zoned as PUD (Planned Unit Development) and MAC (Major Arterial Commercial). The suburban properties are zoned, depending on location, MAC (Major Arterial Commercial), LC1 (Local Commercial) and WC (Wascana Centre).

EXECUTIVE SUMMARY

Office Model

Appraisal Cycle Date – January 1, 2013 to December 31, 2016

Effective Date of Valuation – January 1, 2011

Date of Report – October 1, 2012

Rent Model

Description:	Rate (\$/sqft)
Base Rent - Rentable space in a Class B or Class B+ office building	\$13.01
Additional Adjustments to base Rent:	
Rentable space in a Class A office building	\$3.56
Rentable space in the basement level	-\$5.93
Rentable space on upper floor areas of buildings not serviced with an elevator	-\$7.01
Buildings with an effective year built of 1949 or earlier	-\$3.72

Parking Rents

Description:	\$/month/stall	Eff Rate/month/stall
Base Rent - Parking "Stall" in the downtown area	\$135	\$135
Additional Adjustments to base Rent:		
Parking "Stall" outside the downtown area	-\$43	\$92
Parking "Space" in the downtown area	-\$28	\$106
Parking "Space" in the transitional area (Study areas 4540)	-\$50	\$85
Parking "Space" outside the downtown & transitional areas	-\$73	\$62

Parking "Stall" - refers to covered or parkade parking

Parking "Space" - refers to surface parking

Vacancy and Shortfall:

Vacancy (Class A and B+) = 0.76%

Vacancy (Class B) = 4.96%

Shortfall(Class A and B+) = 0.60%

Shortfall(Class B) = 4.39%

Overall Capitalization Rates

Strata	Cap Rates
City-wide	8.63%

Assessment to Sales Summary Results

Number of Sales	6
Median Assessment-to-Sales Ratio (ASR)	1.000
Coefficient of Dispersion (COD)	24.10%

SCOPE of DATA and ANALYSIS

Office Rent Model

Each year, the City Assessor requests copies of rent rolls for all non-residential properties in the City of Regina. The data for the development of the mass appraisal net rent model came from these returned rent rolls.

A total of 382 office net rents were analyzed using multiple regression analysis. The rent model is an additive model that predicts rents based on the Class of office space, lease space location within the building and effective age of building. The following table provides a breakdown of these rents along with statistical measurements.

Office Rent Statistics

Strata	Count	Mean	Median	Minimum	Maximum
Overall	382	\$13.91	\$13.50	\$5.00	\$27.32
Rental space in a Class A Building	144	\$16.49	\$15.10	\$5.00	\$27.32
Rental space in a Class B+ Building	42	\$13.46	\$13.50	\$7.00	\$23.00
Rental space in a Class B Building	196	\$12.11	\$12.62	\$5.00	\$22.00
Rental space located in Basement	5	\$8.50	\$7.00	\$5.00	\$15.00
Rental space in buildings built pre 1950	34	\$9.30	\$9.00	\$5.00	\$14.95

Vacancy and Shortfall

Typical 2011 base date vacancy and shortfall adjustments were estimated from the returned rent rolls from property owners. The estimates are as follow:

Office Class	Rent_Type	N	Rental Area (sqft)	Vacancy %
OFFICE A & B+	OWNER	11	42,761	0.76%
	TENANT	235	1,887,124	
	VACANT	8	14,801	
		254	1,944,686	
OFFICE B	OWNER	14	21,755	4.96%
	TENANT	281	1,556,227	
	VACANT	45	82,422	
		340	1,660,404	

Vacancy (A & B+) = 14,801/1,944,686 = 0.0076 (0.76%)

Vacancy (B) = 82,422/1,660,404 = 0.0496 (4.96%)

The typical operational costs reported as a ratio to typical net rents for Class A and Class B+ office properties is 90%. The ratio for Class B offices is 100%. The typical ratio of costs associated with vacant space in comparison to costs associated with occupied space (dark space ratio) is approximately 88%. The shortfall adjustment is calculated as follows:

Shortfall = (op cost/net rent ratio) x (dark space ratio) x (typical Vacancy)

Class A & B+ = 0.904 x 0.88 x 0.0076 = 0.60%

Class B = 1.004 x 0.88 x 0.0496 = 4.39%

Overall Capitalization Rates and Adjustments

Economic Capitalization Rates were estimated by dividing the predicted base date net operating income (generated from the net rent model) by adjusted sale prices. Sales used in this analysis occurred between January 1, 2008 and December 31, 2010. These sales were verified by mailing questionnaires to both vendors and purchasers.

Sales were adjusted for non-realty items and other factors when warranted. Sales were also investigated for an adjustment to the base date of January 1, 2011. The analysis was inconclusive therefore a time adjustment was not applied to the sales.

The economic capitalization rate analysis involved 6 sales, detailed in the following table.

Sales

Account	Address	mm	yy	Adjusted Sale Price	Predicted Income	Economic Cap Rate
10032543	2401 SASKATCHEWAN DRIVE	3	2009	\$3,475,000	398,600	11.47%
10032587	1919 ROSE STREET	2	2009	\$5,025,000	569,800	11.34%
10186993	1942 HAMILTON STREET	4	2010	\$6,800,000	669,500	9.85%
10032619	1800 HAMILTON STREET	12	2009	\$41,500,000	2,780,700	6.70%
10037662	2101 SCARTH STREET	5	2010	\$14,003,500	834,900	5.96%
10108179	1920 COLLEGE AVENUE	5	2008	\$27,300,000	2,024,200	7.41%

The reconciliation process for determining economic capitalization rate strata primarily involved Multiple Regression Analysis, which was supported by a consultation process with individuals active in the Regina real estate market. Recognized published capitalization rate data were also reviewed. The economic capitalization rates are as follow:

Strata	Cap Rates
City-wide	8.63%

MODEL TESTING

In mass appraisal, the most effective means of evaluating the accuracy of appraisals is a ratio study. A ratio study compares the appraised values produced by the valuation models to arm's length sale transactions in the marketplace.

The legislated statistical requirement affecting the assessment of commercial properties in Saskatchewan is for the median ratio of a city-wide assessment-to-sales study to be within the range of 0.95 to 1.05.

The median assessment-to-sales ratio and Coefficient of Dispersion for this Office model is provided below:

Number of Sales	6
Median Assessment-to-Sales Ratio (ASR)	1.000
Coefficient of Dispersion (COD)	24.10%