



**SAMA**  
Saskatchewan Assessment  
Management Agency



A LOOK AHEAD TO

2013



## ● SAMA AND THE 2013 REVALUATION

The Saskatchewan Assessment Management Agency (SAMA) is the recognized leader of property assessments in Saskatchewan. The Agency is responsible for a \$94 Billion property assessment base, which is used by local governments to levy a \$1.4 Billion property tax base.

SAMA oversees a full revaluation every four years of all properties in the province to implement a new base date. The base date is the valuation date to which all assessments are related.

The 2009 Revaluation, the current revaluation in Saskatchewan, used June 30, 2006 for a base date. **January 1, 2011** will be the base date for the upcoming 2013 Revaluation.

The 2013 Revaluation will continue to use the market valuation standard for the assessment of residential and commercial properties. The regulated property assessment valuation standard will continue to be used for the assessment of agricultural land, heavy industrial property, railway roadway, pipelines and resource production equipment (mines and oil and gas wells).

For the 2013 Revaluation, all property types will have their values updated in relation to the **January 1, 2011** base date, regardless of being subject to a market valuation standard or a regulated property valuation standard.

The 2013 Revaluation will seek to stabilize the assessment system from a governance perspective by not introducing any major changes to assessment policy.

## ● THREE PROPERTY VALUATION APPROACHES

There are three generally accepted appraisal techniques used to value property that falls within the market valuation standard: the cost approach, the sales comparison approach and the property income (rental) approach.

The **cost approach** estimates the replacement cost of a building, less depreciation, adding land value primarily based on sales. This approach is most useful when there are few comparable sales. The cost approach will continue to be used in smaller municipalities and for specific property types across Saskatchewan.

The **sales comparison approach** is based on the concept of valuing property based on what similar property in the same market area is selling for. This approach is appropriate for determining property assessments for areas and property types with active sales markets such as residential property in medium to large cities.

The **property income (rental) approach** to value is based on the premise that the value of a property is directly related to the rental income it will generate. The assessment appraiser analyzes the property's ability to produce a future income stream, and then estimates the property's value. The property income (rental) approach provides the most fair, reliable and accurate assessed values for commercial property and rental apartments in areas where there are active lease and rental markets.

To ensure assessed values are as accurate as possible, SAMA's professional assessment appraisers collect and analyze available cost, market and property rental income information and use the valuation approach that provides the best estimates of value for each property type, based on available information.

## ● PRELIMINARY ASSESSED VALUES FOR 2013

Since the 2009 Revaluation and its base date of June 30, 2006, the province of Saskatchewan has experienced unprecedented economic growth, and the value of property in the province is no exception.

The result of this active and strong real estate market in Saskatchewan will bring with it significant increases to property assessments that will be reported with the 2013 Revaluation.

Based on provincial averages, preliminary numbers indicate that **residential and resort residential properties** will, on average, be increasing approximately double over their assessed values from the 2009 Revaluation. It is important to note that this is the anticipated increase to the provincial average for residential and resort property. Specific local increases in residential property values between 2009 and 2013 may vary substantially from this figure depending on the overall trend in market values between June 30, 2006 (the base date for the 2009 revaluation) and January 1, 2011 (the base date for the 2013 revaluation).

Similarly, **agricultural land** will see an increase of approximately 50% to assessed values, which reflects the 2006 to 2011 change in the provincial average selling price of agricultural land.

## ● REVENUE NEUTRALITY

While a revaluation updates property assessments, the overall impact on property tax is designed to be revenue neutral on a municipal basis.

Provided that a municipality's budget requirements remain the same in a revaluation year as in the previous year, changes in taxable assessments will only result in changes to tax levels if a property's assessment increases or decreases substantially, relative to the average for that jurisdiction.

Based on the current provincial government practice of establishing common provincial education mill rates, education revenue neutrality and potential education tax shifts will be based on how a specific assessment change relates to the overall provincial average increase in assessments for that same category of properties.





## ● NEW PUBLICATIONS

The SAMA Board of Directors has approved two new publications for use in preparing 2013 Revaluation assessments:

1. *Saskatchewan Assessment Manual (2011 Base Year)*
2. *SAMA's 2011 Cost Guide*

SAMA also uses the *Market Value Assessment in Saskatchewan Handbook* for valuing properties to meet the market valuation standard.

SAMA's stakeholders, through the Agency's advisory committees, reviewed and contributed to these publications. The *Saskatchewan Assessment Manual* has the force of regulation and must be complied with, while the *Cost Guide* and *Market Value Handbook* do not – they are documents within the market valuation standard.

There are two parts in the ***Saskatchewan Assessment Manual***. Part I, "Median Assessed Value to Sale Price Ratio," and Part II, "Regulated Property." Part I of The *Saskatchewan Assessment Manual* relates to Quality Assurance and applies to properties that fall under the market valuation standard in the Municipal Acts. Part II of the manual contains the formulas, rules and procedures that must be followed to value properties that fall under the regulated property assessment standard in legislation.

The five chapters in Part II of the *Saskatchewan Assessment Manual* are used to value agricultural land, heavy industrial property, railway roadway, pipelines and resource production equipment (mines and oil and gas wells).

***SAMA's 2011 Cost Guide*** is a non-regulated document to be used as a reference for SAMA assessment appraisers and the public regarding the application of the cost approach for the valuation of vacant urban land, residential property and selected commercial property for the 2013 Revaluation.

The ***Market Value Assessment in Saskatchewan Handbook*** provides guidance for the assessment of market valuation standard properties with a focus to commercial property and the property income (rental) approach.

Similar to the *SAMA's 2011 Cost Guide*, the handbook is a non-regulated document. It is intended as a reference tool for assessment appraisers and the public in determining assessments for the 2013 Revaluation.

Hard copies of these publications will be provided for a fee that covers the cost to print the documents and any applicable licence fees, and will include an update service.

The *Market Value Assessment in Saskatchewan Handbook*, portions of the *Saskatchewan Assessment Manual (2011 Base Year)* and *SAMA's 2011 Cost Guide* for which a licence fee is not payable, are available free of charge on SAMA's Internet site ([www.sama.sk.ca](http://www.sama.sk.ca)).

## When will the Income Approach be implemented in Saskatchewan?

The Income Approach will be used for the 2009 reassessment. The time until then is needed for:

- legislative changes;
- readying computer systems to store, analyze and determine values using this approach;
- conducting research; and
- changing the formulas, rules and principles contained in the *Saskatchewan Assessment Manual*.

In addition, SAMA:

- has organized an Income Approach research unit;
- is building a new computer system (the Saskatchewan Property Assessment Network); and
- is beginning data collection in 2003.

For further information contact:



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07/02



Saskatchewan Assessment  
Management Agency

## The Income Approach To Value

**A New Method of  
Commercial Property  
Assessment for  
Saskatchewan**

Fair market

– Net Operating

Income ÷ Overall Cap

Overall Capitalization Rate

## What is the Income Approach?

There are three internationally accepted methods of measuring the value of property; the Cost approach, the Sales Comparison approach and the Income approach. Depending on the nature of the property being valued, one or more of the approaches may be used by the assessment appraiser.

The Income Approach is based on the assumption that the value of a property is directly related to the income it will generate over its economic lifetime. (Property is defined by *The Assessment Management Agency Act* to mean land, buildings and improvements.)

## Who will the Income Approach apply to in Saskatchewan?

The Income Approach will initially be applied to:

- apartment/multi-residential;
- hotel/motel;
- office building;
- shopping centre;
- commercial;
- retail; and
- warehouse property owners.

This methodology may not be practical in communities where information on income producing properties is not available. Sound professional appraisal practice requires that an appraiser consider all valuation methods to estimate the value of an asset. An appraiser analyzes accuracy and amount of data available in order to choose the appropriate valuation method.

## Why use the Income Approach?

It provides the appraiser with an additional property valuation tool. This increases accuracy in property valuation. The Income

Approach is well-proven and widely used throughout North America for income producing properties such as commercial, industrial and investment properties.

## How does an Assessment Appraiser use the Income Approach?

Property appraisers analyze income and expense data to help determine an income model.

The values used in the Income Approach are estimated from market data gathered through questionnaires, property owner interviews, published sources and leases. Income and expense data collected by appraisers includes:

- lease information;
- rentable or gross leaseable area;
- number and type of rental units;
- contract rents;
- vacancy rates;
- collection losses;
- miscellaneous income;
- allowable expenses;
- tenant inducements; and
- actual property income and expense information for the current financial period.

*Contract rent* is actual rent – the rent agreed upon by the landlord and tenant.

*Market rent* is economic rent – the rental income that a property would most probably command in the open market. Market rent is an estimate derived from the analysis of contract rents paid and asked on comparable space as of the valuation day.

*Only* income and operating expenses related to the operation of the property are used for the Income Approach. Expenses are normalized so that the net operating income can be calculated. Various categories of allowable expenses are used in this calculation.

Income or expenses associated with the operation of a business conducted on the property are *not* relevant or used in the valuation of the property.

## What about confidentiality?

Information collected by SAMA is kept confidential. The Agency does not release any property-specific income or expense information it has collected to anyone else, unless ordered by the Appeal Boards or Courts.

## What are the basic steps in the Income Approach to Value?

- 1 Determine the property's *potential gross income* – the income the property would earn at full occupancy and current market rents.
- 2 Determine the property's *effective gross income* – the potential gross income, minus an allowance for typical vacancy and collection losses, plus any miscellaneous income the property may earn (e.g. parking, laundry and concession income).
- 3 Determine the property's *net operating income* – the effective gross income minus the operating expenses necessary for the property to earn its potential gross income.
- 4 Determine an appropriate *overall capitalization rate* using sales of comparable properties with similar physical and locational characteristics. (The capitalization rate is a conversion factor that is applied to the income stream to convert it into an indication of the market value of the property.)
- 5 Calculate the property's value using the formula:

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

If income and expense data is required to be disclosed at an appeal hearing, the appeal board may order, upon request, that all or any part of the data is confidential, and may also order that the hearing be held in the absence of the public.

## Failure to Provide Information

The Income Approach is the most accurate method for valuing commercial properties in applicable areas. This approach is highly dependent on property owners providing accurate and comprehensive rental and expense information.

Each of the municipal Acts contains significant penalty clauses for failure to comply with requests for information. Penalties range from fines to possible dismissal of appeals by local Boards of Revision or the Saskatchewan Municipal Board.

Please take the time to respond fully to any requests from assessment appraisers for property sales information, or rental and expense information. Your timely response will aid in ensuring that the assessment system becomes more accurate, fair and equitable for all.

For further information please contact



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306-924-6626 or 866-828-2133  
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## Providing Information for the Income Approach

Market Value

– Net Operating

Income ÷ Overall Cap

Overall Capitalization Rate

## Providing Information for the Income Approach

In 2009, the Income Approach will be introduced in Saskatchewan. This Approach provides the assessment appraiser with an additional property valuation tool. Where applicable and practical, this new approach to value is expected to increase the accuracy of commercial property assessments. In order to produce an accurate assessment, the assessment appraiser must receive accurate and timely information from the property owner.

## Benefits to the Commercial Sector

For the commercial sector, assessed values will reflect the marketplace and be more accurate, and understandable when they are based on the actions of buyers and sellers.

## Support for the Income Approach by the Commercial Sector

In 2001, the Commercial Advisory Committee to the SAMA Board passed a motion endorsing the Income Approach for 2009. Represented on this advisory committee are the Saskatchewan Chamber of Commerce, the Canadian Federation of Independent Business, the Canadian Property Tax Association, the Hotels Association of Saskatchewan, the Saskatchewan Home Builders' Association and numerous special interest groups.

## How does the Assessment Appraiser use the Income Approach?

The Income Approach is based on the assumption that the value of a property is directly related to the rental income it will generate over its economic lifetime.

Assessment appraisers analyze property (rental) income and expense data to estimate net operating income.

Potential Gross Income (PGI) – Vacancy/Bad Debts  
= Effective Gross Income (EGI)

Effective Gross Income (EGI) – Operating Expenses  
= Net Operating Income (NOI)

Only potential income and allowable expenses necessary to operate the property are used for the Income Approach. The total value of the property is based on the income it is capable of earning and the return that buyers expect to achieve. These returns are derived from analyzing sales of similar investment properties.

Income from hotel/motel operations results from the land and buildings, the business, as well as the furniture, fixtures and equipment (FF&E) and therefore, the valuation for assessment purposes must differentiate between the real estate and other components.

The Income Approach is most applicable within an active rental and sales market. To determine assessed values, appraisers gather data through questionnaires, property owner interviews, and third-party sources.

## Provision of Information to the Assessment Appraiser

Appraisers gather data to meet the conditions of the *Cities Act*; the *Municipalities Act*; and the *Northern Municipalities Act*. In 2002, these Acts were amended to state that assessment appraisers "may, at any time, request any information or document that relates to or might relate to the value of any property (land & improvements) from any person who owns, uses, occupies, manages or disposes of the property".

The Acts also contain provisions that enable assessment appraisers to request information or documentation that relates to the income generated or expected to be generated by any property, as well as the property expenses incurred or expected to be incurred.

Within a prescribed timeframe of receiving a request (e.g. 30 days) the recipient must provide all of the requested information, and a signed declaration stating that the information provided is complete, true and accurate to the best of his or her knowledge.

Assessment Appraisers who acquire or have access to this kind of information must keep that information confidential, and may not use it or disclose it for purposes other than to determine the value of any property.



## How the Income Approach Works

The Income Approach aims to obtain values for a range of hotels and motels with typical features and conditions.

The income approach methodology used in Saskatchewan for hotels/motels will be the "direct capitalization". Direct capitalization converts the expected level of current net earnings to indicate the estimated value of the property.

Only income and operating expenses necessary to operate the hotel/motel property will be used for the Income Approach.

## Confidentiality of Information

The assessment jurisdiction recognizes information required may be personal, confidential or sensitive. Steps have been taken to ensure information is kept secure and confidential in accordance with confidentiality provisions in legislation.

## When will the Income Approach be implemented in Saskatchewan?

The Income Approach will be used for the 2009 revaluation. The time until then is needed to:

- organize and carry out research,
- gather physical, as well as income and expense, data on properties,
- recruit and educate appraisers,
- ready computer systems to store, analyze and determine values.

For further information please contact

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# SAMA

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## Hotels and Motels

### Property Assessment through the Income Approach

Market Value

– Net Operating

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Overall Capitalization Rate

## Hotels and Motels

Hotels and motels are properties typically purchased for investment purposes. They return revenue to their owners in the form of income. The ability to earn income is fundamental to the value of hotels and motels. Other income value factors include economic conditions, location, and competition.

## What is the Income Approach?

The Income Approach is one of three methods used by appraisers to estimate a property's assessed value. This valuation method is based on the assumption that the value of a property is directly related to the income it will generate over its economic lifetime. The Income Approach valuation method is used widely throughout North America when appraising income-producing properties such as hotels and motels.

## Hotel Values Rely On Actual Performance

Perhaps more than any other income-producing property, the value of hotel real estate relates to its actual performance. There are many hotels of similar nature, but they rarely have the same features such as: room mix, room finishes, restaurants, franchise affiliations, or labour arrangements. With the income approach, actual income and expenses related to the real estate form the starting point. Actual data will then be compared to the performance of similar hotels to establish the appropriate assessment values.

## Hotel Values are Sensitive to Market Change

The value of a hotel is sensitive to changes in the marketplace. Unlike other income-producing properties, revenue generated from a hotel relies on short-term stays. A reduction or increase in occupancy directly links to income. The hotel industry is cyclical in nature and values will rise and fall over time.

To even out short-term fluctuations and strengthen the assessment system, stabilized income and expenses are used to value hotels and motels.

## Segregation of the Hotel Real Estate Component

The generation of gross income by hotels from a number of sources including room rentals, food and beverage sales, and other sources, supports the value of the entire enterprise. Income is generated through tangible assets such as land, buildings, and personal property, and intangible assets such as hotel management. Assessing the value of a hotel means separating the real estate portion from the value of other components.

*Notes: Components are referred to as:*

- *land and buildings;*
- *business interests, management, labour and operational expertise, licenses, trademarks; and*
- *furniture, fixtures and equipment (FF&E) such as beds, carpets and televisions.*

Income from the hotel/motel operation results partly from all these components. Since assessment reflects the value of the real estate, the valuation must differentiate between the real estate value and other components.

## Application of the Income Approach to Hotels and Motels.

The Income Approach can be applied to the following hotels and motels:

- **Motel** - properties with limited amenities, generally catering to drive-by-traffic.
- **Limited Service** - properties with only some of the amenities found in full service properties.
- **Full Service** - hotels that provide a wide variety of facilities and amenities including food and beverage service, recreational facilities and meeting rooms.

- **Suite** - hotels that have separate (not necessarily physically divided) sleeping and living areas.
- **Resort** - hotels, usually in non-urban locations with recreational facilities.
- **Gallage houses or tavern hotels** - hotels where room rentals are a minor component of the operation. They tend to have been constructed before 1940.

Due to declining populations and/or economies in some areas of rural Saskatchewan, hotels and motel establishments located in less viable communities may have to be valued by other appraisal approaches.

## Bed and Breakfasts and Home-Based Inns

Bed and breakfast and/or home-based inns will not be included as part of the income approach.

## Gallage Houses or Tavern Hotels

If available income and expense data are unsuitable for the analysis of gallage houses or tavern hotels, it may be possible to value these properties by the Sales Comparison Approach.

A sale is generally a good indicator of value, but the price paid for a hotel/motel reflects the value of the entire enterprise including real estate, business, management, and personal property. If sales data is limited, it is difficult to compare properties due to location, amenities, and condition.

Units of comparison between properties could include the value per (bar) seat, the value per volume of alcohol, or the value per square foot.