

**CITY OF CALGARY
ASSESSMENT REVIEW BOARD
DECISION WITH REASONS**

In the matter of a complaint filed with the City of Calgary Assessment Review Board pursuant to Part 11 of the *Municipal Government Act*, Chapter M-26, Revised Statutes of Alberta 2000 (the Act).

Between:

AEC INTERNATIONAL INC., Complainant

and

THE CITY OF CALGARY, Respondent

Before:

**J. KRYSA, Presiding Officer
I. ZACHAROPOULOS, Member
M. PETERS, Member**

A hearing was convened on August 20, 2010 in Boardroom 4 at the office of the Assessment Review Board, located at 1212 - 31 Avenue NE, Calgary, Alberta in respect of the property assessment prepared by the assessor of the City of Calgary, and entered in the 2010 Assessment Roll as follows:

ROLL NUMBER:	097001200
LOCATION ADDRESS:	4216 54th Avenue SE
HEARING NUMBER:	58614
ASSESSMENT:	\$29,650,000

PART A: BACKGROUND AND DESCRIPTION OF PROPERTY UNDER COMPLAINT

The subject property is a 727,687 sq.ft. (16.71 acre) parcel of land improved with 12 multi-tenant industrial warehouses constructed in 1978. The individual structures range in size from 19,481 to 52,163 sq.ft., and total 315,374 sq.ft. of rentable area, with a site coverage of 40.4%.

PART B: PROCEDURAL or JURISDICTIONAL MATTERS

There were no procedural or jurisdictional matters raised by the parties.

PART C: MATTERS / ISSUES

The Complainant raised the following matter in section 4 of the complaint form:

3. an assessment amount

The Complainant set out several issues and grounds for complaint in section 5 of the complaint form, with a requested assessed value of \$20,000,000; however at the hearing the Complainant requested an assessment of \$16,982,000, and put forward evidence in support of the following issue:

Issue: An income analysis indicates a value range from \$16,982,000 (actual vacancy) to \$23,338,000 (typical market vacancy).

The Complainant argued that the Assessor's direct comparison approach methodology, which predicts assessment values based on sales of individually titled, freestanding properties, each on their own parcel of land, does not account for the unique characteristics of the subject and has significantly overestimated the value of this multi building property. Further, the configuration of the 12 buildings on the subject site results in functional obsolescence; the structures at the rear of the site have limited exposure and poor access for truck traffic, resulting in decreased rents and higher than typical vacancies. With no sales of similar (multi-building) properties available, the Complainant argued that the income approach was the most appropriate valuation methodology to establish market value for the subject property.

The Complainant submitted 2 income approach valuations of the subject property; the first reflecting the actual vacancy rate exhibited in the subject property as determined from the rent roll, and the second, based on typical vacancy rates. The remainder of the coefficients were identical in both calculations; the market rent coefficient of \$6.50 was the median rent rate of lease contracts signed during 2009 within the subject property [C1 pgs 29-33]. The vacancy allowance, operating cost, and capitalization rate coefficients were derived from 3rd party market reports where available [C1 Appendices].

During cross examination the Complainant conceded that typical market rents for industrial warehouse properties appear to range from \$8.00 to \$12.00 per sq.ft. for lease spaces similar in size to that found in the subject that are achieving rents in the \$6.00 to \$7.00 range.

The Respondent advised that assessment values for multi-building industrial properties were predicted by a direct comparison approach model, which valued each building independently, based on sales of single building properties. The total assessment for the subject was determined as the sum of the individual predicted values for each building.

In support of the individual assessed values assigned to each building, the Respondent submitted a list of 10 industrial warehouse sales comparables, indicating a range of time adjusted sale prices (TASPs) from \$83 to \$155 per sq.ft., in contrast to the range of assessed values within the subject of \$82.42 to \$104.26 per sq.ft. [R1 pg 21]. The Respondent argued that the rent rates required to arrive at the TASPs using the Complainant's typical coefficients would be \$8.86 to \$13.07 per sq.ft., and therefore the subject's rents were below typical market rent levels, and should be ignored.

The Respondent also provided a lease analysis of 2009 warehouse rents that exhibited median and average rent rates of \$10.00 and \$10.34 respectively, and argued that this level of rent fairly represented typical industrial market rents. Further, if applied to the subject area with the Complainant's coefficients, a market value of \$37,300,000 was evident [R1 pg 26].

The Respondent also provided several comparable assessments to demonstrate that the assessments were fair and equitable in relation to the assessments of other similar properties [R1 pg 22].

The Complainant submitted rebuttal evidence to indicate that the Respondent's sales on page 21 of exhibit R1 were irrelevant, as they were dated sales that would not reflect the typical market at the July 1, 2009 legislated valuation date. Further, the Complainant provided excerpts from decisions of the Municipal Government Board in MGB 041/06 and MGB 037/09, in support of the argument that there were insufficient recent sales of similar properties to rely on the direct comparison approach to value.

The Complainant also argued that the Respondent's evidence of a median \$10.00 rent rate only confirms that the subject is unique and inferior to a typical industrial warehouse, as it cannot attain that level of rent.

Decision:

The Board finds that the subject property is not a typical industrial warehouse property, and that the income approach to value would more accurately reflect the unique characteristics of the subject property. The Board further finds that the Respondent's direct comparison approach methodology is inappropriate for valuing multi building properties.

The subject property comprised of 12 individual warehouses with over 300,000 sq.ft. of rentable area situated on one parcel is clearly unique; none of the sales or equity comparables presented to the Board were remotely similar in nature to the subject. Without any sales of large, multi building industrial properties the Respondent's direct comparison approach is unsupported.

The Board further rejects the Respondent's direct comparison approach methodology with respect to multi building properties, such as the subject. The Respondent's methodology ignores the principle of economy of scale, differences in access and exposure to traffic flows, the higher site values of smaller parcels, different markets for small investors vs. large investors, and different markets for small owner occupied vs. large investment grade income properties. As an example, the principle of economy of scale is evident in an examination of the Respondent's sales on page 21 of R1, which are sorted by total area. The first 5 sales, properties under 28,313 sq.ft. sold for an average of \$130 per sq.ft., while the last 5 sales,

properties 41,586 to 77,351 sq.ft. sold for an average of \$94 per sq.ft. The subject property is a single parcel, developed with 300,000 sq.ft. of warehouse space, and not 12 individual, fee simple properties between 19,000 and 50,000 sq.ft. each. The attributes of this complex are dissimilar to, and cannot be compared to sales of small individual warehouses.

The Board accepts the Complainant's position that the most appropriate valuation approach in this instance is the income approach to value.

The Board notes that it is a legislated requirement to apply typical market coefficients to typical properties, however, in this instance the subject is not a typical property capable of achieving typical rents. Applying coefficients derived from sales transactions of typical properties, would not reflect the characteristics and physical condition of the property as required in the legislation.

The market evidence from both parties suggests that typical industrial market rents range from \$7.00 to \$12.00 per sq.ft. with an average rents in the vicinity of \$10.00. The Respondent's calculation of rents from the sales analysis on page 26 of exhibit R1 indicated that rent rates of approximately \$9.00 to \$13.00 per sq.ft. were evident when market coefficients were applied to the sale prices. The subject's leases signed in 2009, confirm that this property is not achieving typical market rent levels, and a comparison of the subject's leases of prior years in relation to the chart in Appendix 2 of exhibit C1, confirms that lease rates within the subject have consistently been well below the average industrial lease rates evident.

The Board does not accept the Complainant's lease rate analysis on page 15 of C1, as over half of the leases were signed subsequent to the valuation date of July 1, 2009. The Board did however, accept that the weighted average of the leasing activity during the 24 month period prior to July 1, 2009, reflects the typical market rent this unique property is capable of achieving, and as such, a rent rate of \$6.99 per sq.ft. is considered appropriate.

With respect to the vacancy rate coefficient, without any evidence of long term atypical vacancy at the subject, the Board accepts that this coefficient is to represent a market "allowance", and the Board finds the Complainant's 5% typical vacancy allowance appropriate. The Complainant's remaining coefficients for vacancy shortfall, non recoverable expenses and capitalization rate were not rebutted by the Respondent and are accepted by the Board as well.

FINAL DECISION

The property assessment is revised from \$29,650,000 to \$25,120,000.

Dated at the City of Calgary in the Province of Alberta, this 30 day of September, 2010.



J. Krysa
Presiding Officer

APPENDIX "A"

DOCUMENTS RECEIVED BY THE ASSESSMENT REVIEW BOARD:

NO.	ITEM
1.	Exhibit C1 Complainant's Brief
2.	Exhibit C2 Complainant's Rebuttal
3.	Exhibit R1 Respondent's Brief

APPENDIX 'B'

ORAL REPRESENTATIONS

PERSON APPEARING	CAPACITY
1. J. Luong (AEC)	Representative of the Complainant
2. I. Baigent	Representative of the Respondent
3. P. Sembrat	Representative of the Respondent

An appeal may be made to the Court of Queen's Bench on a question of law or jurisdiction with respect to a decision of an assessment review board.

Any of the following may appeal the decision of an assessment review board:

- (a) the complainant;*
- (b) an assessed person, other than the complainant, who is affected by the decision;*
- (c) the municipality, if the decision being appealed relates to property that is within the boundaries of that municipality;*
- (d) the assessor for a municipality referred to in clause (c).*

An application for leave to appeal must be filed with the Court of Queen's Bench within 30 days after the persons notified of the hearing receive the decision, and notice of the application for leave to appeal must be given to

- (a) the assessment review board, and*
- (b) any other persons as the judge directs.*