

**CALGARY
ASSESSMENT REVIEW BOARD
DECISION WITH REASONS**

In the matter of the complaint against the Property/Business assessment as provided by the *Municipal Government Act*, Chapter M-26.1, Section 460(4).

between:

AEC International, COMPLAINANT

and

The City Of Calgary, RESPONDENT

before:

C. Griffin, PRESIDING OFFICER

K. Kelly, MEMBER

A. Zindler, MEMBER

This is a complaint to the Calgary Assessment Review Board in respect of Property/Business assessment prepared by the Assessor of The City of Calgary and entered in the 2010 Assessment Roll as follows:

ROLL NUMBER: 092037902 and 201307758

LOCATION ADDRESS: 4687 Barlow Trail SE and 1111 – 42 Avenue SE respectively

HEARING NUMBER: 58646 and 58647

ASSESSMENT: \$5,170,000. and \$4,960,000. Respectively

These complaints were heard on 9th day of August, 2010 at the office of the Assessment Review Board located at Floor Number 3, 1212 – 31 Avenue NE, Calgary, Alberta, Boardroom 12..

Appeared on behalf of the Complainant:

- C. Hall

Appeared on behalf of the Respondent:

- R. Luchak & D. Desjardins

Board's Decision in Respect of Procedural or Jurisdictional Matters:

The Complainant raised a Preliminary Issue related to the exchange of information, in particular the Assessment Brief of the Respondent relating to the property at 4687 Barlow Trail SE (Roll # 092037902), stating that most of the brief had been delivered one day late and verifying same with a delivery receipt. The Respondent was unable to verify any prior delivery of the document. The Complainant suggested that only pages 1 and 12 through 54 be admitted as evidence as these pages had been disclosed at an earlier date. The Composite Assessment Review Board (CARB) agreed with this proposal and the Hearing proceeded accordingly noting that the decision related only to the Barlow Trail property brief.

Other Preliminary Matter(s):

In that the issues and arguments for both properties are similar it was requested, by both parties, that both properties be heard at the same time with the Barlow Trail property being used as the base, with the argument(s) being carried forward and applied to the 1111 – 42 Avenue SE property. The CARB agreed to proceed on this basis.

Property Description:

Both of the subject properties are 'self-storage' facilities.

The property located at 4687 Barlow Trail SE is a large facility totalling 75,820 Sq. Ft. The property was constructed in 2004, but it was configured in a style common to the 1970's in that all of the individual storage units are externally accessed and none of the units have climate controls. The self-storage buildings are prefabricated and feature metal cladding over steel frames sitting at grade on an asphalt paved site. There is a total of 15 buildings ranging in size from 1,000 sq. Ft. (building #11) to 9,600 sq. ft. (building # 12).

The property located at 1111 – 42 Avenue SE was constructed in 2007 and opened for business in 2008. This property is more modern in design in that 80% of the units are internal and are climate controlled, 15% of the units are externally accessed drive-up in style and are heated while the remaining 5% of the units are externally accessed drive-up style having no climate controls. The property consists of four independent buildings which range in size from approximately 12,600 Sq. Ft. to approximately 63,600 Sq. Ft. In total the property features approximately 103,000 Sq. Ft. with a rentable area of 83,262 Sq. Ft.

Issues:

The Complainant identified the following issues on the Complaint form:

1. The Assessor is required to take into account the principle of equity in arriving at the assessment. The property has been valued through application of the Cost Approach. Excessive over-valuation is present. Self-storage facilities can only be reliably valued using the Income Approach to Value.
2. The property assessment is in excess of the legislated market value standard required by the Municipal Government Act.
3. The assessment of this property is in excess of the value evidenced by sales of comparable property..
4. Such further and other facts or grounds that are identified as disclosure of the manner in which the assessment and similar assessments were prepared and as the equity analysis develops through amended notices or Board decisions.

At the hearing the issues heard and argued were reduced to:

- Self-storage facilities are not special purpose property and should be assessed based on the Income Approach, not the Cost Approach as used by the Assessor.
- The assessment is inequitable with other similar properties in the municipality.

Complainant's Requested Value:

\$3,250,000 for 4687 Barlow Trail SE **revised** to \$3,710,000 at the Hearing
\$1,000,000. for 1111 – 42 Avenue SE **revised** to \$3,690,000 at the Hearing.

Special Note:

The Reader is advised that the same two parties named in this decision appeared, in Calgary, before the Composite Assessment Review Board (CARB) on August 5, 2010 on an Assessment Complaint that also dealt with a Self-Storage facility, similar in many respects to the subject properties, and having similar issues as those stated herein. The Decisions following are consistent, where applicable, to the Decisions given in Assessment Review Board Order # 1036/2010-P dated August 19, 2010.

Board's Decision in Respect of Each Matter or Issue:

1. Should the assessment be prepared using the Cost Approach or the Income Approach.

Complainant's Position

The assessment was calculated using the Cost Approach to Value as the Assessor classified the property as being "special purpose buildings which have limited sales or income information." The Complainant contends that self-storage facilities are not 'special purpose' properties and that income information is readily available and that in fact the Respondent had been requesting income information pertaining to the subject Barlow Trail property from the owners by way of an Assessment Request for Information (ARFI) form and had received same.

The Complainant submitted a decision of the Municipal Government Board, DL047/10 in which the MGB agreed that self-storage is not special purpose property, as well as an excerpt from the Appraisal Institute document Market Analysis and Valuation of Self-Storage Facilities, Richard Correll (2003):

"For an Existing Project

There is no doubt that the cost new to replace a project is important information for any appraiser. The replacement cost of a project suggests the cost of entry into the market and is relevant when an investor is considering whether to buy or build a facility. The problem arises when the cost analysis becomes a tool for valuing an existing project. Investors simply do not use depreciated cost as a basis for making purchasing decisions so this approach is not directly tied to the market.

Conclusion

In the valuation of existing self-storage properties, the cost approach is generally not relevant for several reasons:

1. The estimates of value generated by the sales comparison and income capitalization approaches are often well-supported and persuasive, while the depreciation estimates needed to apply the cost approach are often difficult to support.

2. Market participants including owners, investors, developers, and brokers do not rely on depreciated cost estimates as a basis for estimating prices.
3. The cost to replace an existing property has little relevance to the “as is” value of the property.”

The Complainant also submitted an excerpt from the Alberta Assessors Association Valuation Guide – Special Purpose Properties that states in its introduction:

“The methods described in this valuation guide are designed to suit special purpose properties that typically possess the following characteristics:

- Properties that typically do not rent, or where there is no rental information available.
- Properties that do not sell, or where the sale typically reflects both a business and real estate transaction.

The valuation guide is *not* designed to apply to the valuation of:

- Typical warehouses (see the Warehouse Valuation Guide),
- Multi-tenanted industrial properties, or
- Other types of industrial or commercial properties that typically generate income.

Self-storage facilities trade to investors based on income. The principle of substitution and the cost approach is generally only useful when making development decisions, if one can build for less than the cost to purchase. This provides a soft cap on market value, but does not address market influences and can yield wildly unreliable estimates, both high and low. The business value of a self-storage business is inseparable from the value of its real estate, and its value reflects actual market rent, unlike conventional industrial or commercial buildings which often have long-term leases at rates that do not reflect the current market. To that extent it is more like hospitality property where room rates always reflect current market value.”

Respondent's Position

The respondent contends that the lack of sales precludes application of the Sales Comparison Approach to Value. Similarly, the lack of income information precludes the application of the Income Approach to Value and this results in the Cost Approach being utilized as the only reliable valuation method.

Decision and Reasons:

The Act and regulations do not mandate the use of any particular approach in valuing property; however, the valuation standard is market value (Section 293 of the Act and 6 of Alberta Regulation 2004/220 Matters Relation to Assessment and Taxation):

- 293(1)** In preparing an assessment, the assessor must, in a fair and equitable manner,
- (a) apply the valuation and other standards set out in the regulations, ...

- 6(1)** When an assessor is preparing an assessment for a parcel of land and the improvements to it, the valuation standard for the land and improvements is market value ...

The Board notes that the Respondent's submission describes the three approaches to value: sales, income and cost, and states: “The valuation approach chosen emulates the approach and analysis taken by parties in the relevant market.” The Board is persuaded by the Complainant's evidence that the cost approach does not emulate the approach and analysis taken by the parties in the self-storage market.

Ultimately, it is not the choice of approach, but the closeness to which the assessment value approximates market value that determines whether the assessment is in accordance with the Act and regulations. The Board does not have the jurisdiction to direct the use of a particular approach to value in determining an assessment.

2. The assessment is inequitable with the assessments of similar properties within the municipality.

Complainant's Position:

The use of the cost approach results in obvious inequities between the subject and other self-storage properties. The Complainant centred their equity argument, for both properties, on one self storage facility in reasonable proximity:

1. Maple Leaf Storage at 803 64 Ave SE is a new, 100% climate-controlled, 4-storey 178,500 sq. ft. self-storage warehouse with a 41,293 sq. ft. conventional multi-tenant warehouse on a 5.45 acre parcel prominently located at the Glenmore/Blackfoot interchange. The total assessment of the property is \$9,320,000. Removing \$4,500,000 from the assessment for the value of the warehouse (the assessment of an older smaller warehouse located directly north of the Maple Leaf facility), the value of the self-storage facility is \$4,840,000 or \$27/sq. ft. compared to the Barlow Trail property at \$79/Sq. Ft. or the 42 Avenue SE property at \$48/Sq. Ft.

Respondent's position:

The Respondent did not submit evidence dealing directly with the equity argument; however, they did argue that comparing either of the subject properties to the Maple Leaf property was not reasonable given the significant differences in the design of that property compared with the designs of the subject properties.

Decision and Reasons:

The Board finds that the subject is assessed inequitably with 15216 5 St SW. The Board is satisfied that the relative market value of self-storage facilities would be based on their relative income-generating potential, all other factors being equal. The Board was presented with no evidence that the comparable performed better than the subject, but agrees that it is in a similar location and would be expected to generate similar revenue.

With respect to the Maple Leaf facility, the Board agrees that multi-storey and single-storey facilities are not comparable and that extracting the value of the warehouse portion based on the assessment of a separately titled neighbouring warehouse may not yield an accurate value for the self-storage portion. Nevertheless, even with a total floor area significantly larger than either of the subject properties and having what is considered to be a better location, its assessment raises doubt as to the accuracy of the assessments of the subject properties.

Board's Decision:

The Board agrees with previous decisions that the subject properties are not 'special purpose', but rather are income producing properties. Accordingly the value of an income producing property is directly related to quantity and quality of the income that property produces or is deemed capable of producing. The Respondent's contention that income information for this type of property is not available is not supportable as evidenced by the Respondent's own Assessment Request For Information (ARFI) forms, which clearly provides same.

The Board has determined that the Complainant has submitted a supportable and reasonable application of the Income Approach to derive a more reasonable estimate as to the assessed values for the subject properties.

The Complaint is allowed and the Assessments of the subject properties are reduced as follows:

Roll Number 092037902 (4687 Barlow Trail SE) : \$3,710,000.

Roll Number 201307758 (1111 – 42 Avenue SE) : \$3,690,000.

DATED AT THE CITY OF CALGARY THIS 27 DAY OF Aug 2010.



C. J. GRIFFIN

Presiding Officer

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.*