

**CALGARY
ASSESSMENT REVIEW BOARD
DECISION WITH REASONS**

In the matter of the complaint against the property assessment as provided by the *Municipal Government Act*, Chapter M-26, Section 460, Revised Statutes of Alberta 2000 (the Act).

between:

Shoppers Realty INC. Proprietes Shoppers Inc. (as represented by AEC International Inc.), COMPLAINANT

and

The City Of Calgary, RESPONDENT

before:

K. D. Kelly, PRESIDING OFFICER

A. Blake, MEMBER

A. Wong, MEMBER

This is a complaint to the Calgary Assessment Review Board in respect of a property assessment prepared by the Assessor of The City of Calgary and entered in the 2011 Assessment Roll as follows:

ROLL NUMBER: 049012602

LOCATION ADDRESS: 2255 – 29 ST NE

HEARING NUMBER: 63210

ASSESSMENT: \$36,960,000

This complaint was heard on 26th day of July, 2011 at the office of the Assessment Review Board located at Floor Number 4, 1212 – 31 Avenue NE, Calgary, Alberta, Boardroom 3.

Appeared on behalf of the Complainant:

- *Mr. A. Payn - AEC International Inc.*

Appeared on behalf of the Respondent:

- *Mr. J. Young - Assessor, City of Calgary*

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

None

Property Description:

The subject is a single-tenant industrial warehouse (Shoppers distribution warehouse) situated on 24.07 acres of land in Sunridge industrial park in NE Calgary. The subject is a 424,255 square foot (SF) 2001 structure with 426,791 SF of assessable space. It has 7% finish and is assessed at \$87 per SF. The property is zoned Industrial General (IG), has a total site coverage of 40.46% and is assessed at \$36,960,000.

Issues:

1. The subject was incorrectly assessed using the Market Approach to Value and should have been assessed using the Income Approach to Value due to a paucity of market sales in the base year.
2. The assessment is inequitable when compared to comparable properties.

Complainant's Requested Value: \$29,994,000 based on Income Approach at \$68.08 per SF.

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

Issue #1: "The subject was incorrectly assessed using the Market Approach to Value and should have been assessed using the Income Approach to Value due to a paucity of market sales in the base year."

The Complainant referenced his Brief (document C-1) wherein he identified the location of the subject in Sunridge industrial park using a map, aerial photo, and exterior photos of the subject building. He argued that there are three approaches to property valuation – i.e Cost, Income, and Market, and he briefly explored valuation options for the subject with each methodology.

The Complainant indicated that where there is a dearth of market sales, then the Income Approach is most commonly and appropriately used. He argued that such is the case with the current market circumstances for the subject building in Calgary. In support of this theory, he referenced selected excerpts regarding "Appraisal Theory" said to be from "The Appraisal Institute of Canada" and the "Alberta Assessors' Association".

The Complainant therefore argued that because he considered that there were very few comparable property sales in what he defined as the one-year "base year" – ie July 1, 2009 to June 30, 2010, then it was important to use the Income Approach to Value methodology to calculate the assessable value of the subject. The Complainant's market-based presentation to the Board was based predominantly on this principle. In addition he argued that while the City's assessment model is generally reasonably accurate, it becomes unreliable when properties exceed 100,000 SF in floor area.

In support of his position that there were insufficient market sales, the Complainant provided a matrix on pages 43 – 45 of document C-1 containing 154 industrial property sales which he had copied from the city's website. The sales had all transacted between July 1, 2007 and June 30, 2010 – a period of three years. The Complainant clarified that "he looked at the largest sale prices and assumed they were the biggest buildings". Thereupon the Complainant opted to select for his "base year", only four sales of buildings over 100,000 SF, from one year (July 1, 2009 to June 30, 2010) of sales.

In further support of his position, the Complainant provided a matrix on page 30 of document C-1, of his selected four industrial property sales, which had all transacted between May 2009 and May 2010. He also provided the Alberta DataSearch sheet for one of the sales of a 146,135 SF building on 7.06 Acres (Ac.) at 10905 – 48 ST SE which identified it as a "portfolio" sale that included 2 Edmonton properties. The Respondent argued that this sale therefore – as a portfolio sale, was not a valid sale that the City would have used in its market analysis.

A second 9.22 Ac. property at 4949 – 76 AV SE contained a 106,309 SF building. A third 4.44 Ac. property at 2340 – 22 ST NE contained a 116,566 SF building. The fourth, a 15.84 Ac. property at 4100 Westwinds DR NE contained a 301,930 SF building which the Complainant noted was an "A" Quality building and therefore he did not think that it compared to the subject – a "B" Quality building.

The Complainant also noted that the City's Assessment Summary Reports had identified the "Quality" of the four properties as being either "A-", or "C or "C+" which he considered a very significant "identifier".

The Complainant clarified that in comparing the properties, no adjustments of any kind had been made to any of the three market sales in his matrix. That is, there were no adjustments made for differing site coverages between comparable properties; for differing years of construction of improvements; for differing per cent levels of finish; parcel size; and so on. The Complainant also provided the City's Assessment Summary Reports and Alberta DataSearch sheets for his comparable property sales and equity comparables – primarily in his rebuttal document C-2.

The Complainant argued that the City's nine market sales on page 24 of its Brief R-1 demonstrated that the City had only two useable sales in the Complainant's one-year base year, and their individual characteristics were not "homogeneous" either with each other or the subject – an important consideration when comparing properties he suggested.

The Complainant methodically identified the source of each of the inputs to his Income Approach to Value calculation. He articulated on page 21 of Brief C-1 that according to Third Party Market Reports for Calgary from CB Richard Ellis (CBRE) that "Average Asking Lease Rates", as well as an AEC "industrial lease survey", appeared to indicate that an appropriate "average rent" of \$5.29 per SF and an "average net effective rent" (after certain inducements) indicated \$4.86 per SF was appropriate.

The Complainant thereafter cited Third Party sources – including CBRE and Colliers International, for indicated valuations which he then used as inputs for "Vacancy Rate"; "Vacancy Shortfall"; "Non-recoverables"; and "Capitalization Rate". Thereupon, the Complainant concluded that his calculations, based on an Income Approach to Value calculation using such inputs, indicated a market value of \$28,994,000 for the subject. However, the Complainant volunteered that perhaps a Cap Rate of 7% instead of his utilized 7.25% might be more appropriate for the subject, which would have produced a higher, but undefined alternate value.

The Complainant argued that the City's "Assessment Summary Reports" identify each industrial building as having been assigned a Quality rating ranging from A to C. He argued in document C-1 and in his rebuttal document C-2 that his market comparables retained quality ratings similar to the subject, whereas the City's market comparables did not. Therefore, he argued, the City's market comparables are not comparable based on "quality" alone.

The Respondent presented his Brief R-1 and argued that the entire basis of the Complainant's market-based argument of a paucity of sales in this complaint, is fundamentally flawed and is simply incorrect. Moreover, he noted that notwithstanding the large number (154) of sales available as revealed in the Complainant's own evidence, and as taken from the City's website, the Complainant has arbitrarily limited his own access to market data by insisting on using only one year of sales. However, the City has used three years of sales to assess the subject, all of which were analyzed by the City using a professionally-accepted process under Mass Appraisal.

The Respondent clarified that unlike the Complainant's one year "base year", the City's "base year" for analyzing sales is three years - from July 1, 2007 to June 30, 2010. He reiterated that in preparing the 2011 assessments, the City had used three years of sales in its analysis of the market – some 154, all of which were posted on the City's website for use by the public.

The Respondent argued that the Complainant's argument in this issue is "self-defeating". That is, if he argues that there are "no" market sales and an Income Approach should be used, then because there are "no" sales, it is not then possible to calculate a reliable Capitalization Rate. Hence, the Income Approach would not be a valid approach because certain key variables would be unavailable to use in the calculation.

The Respondent argued that the Complainant's market comparables are not comparable to the subject or to each other. On pages 29 to 46 of R-1, the Respondent identified a significant number of data inconsistencies and factual errors in the Complainant's four market comparables. Moreover, he noted that while the Complainant has stressed the need for "homogeneity" among comparable properties, this does not mean that each individual site characteristic for each property must be identical in order for comparability to be achieved. He noted that according to accepted industry practice, the City can and does make computerized adjustments to like-properties to effect a reasonable measure of comparability where warranted.

In addition, the Respondent argued that in the Complainant's application of the Income Approach to Value methodology to value the subject, the resulting calculations are invalid, based on the use of faulty data. He argued that the inputs used by the Complainant are based on broadly-based third-party market "typical" data which is non-specific to the subject's location.

The Respondent also questioned the Complainant's use of third-party "Asking Rates" instead of solid "Actual" lease/rent rates from properties either nearby the subject or within the subject itself. He also challenged the reliability of the "actual" rates identified in the Complainant's four leases on page 22 of C-1, since the specific site addresses and other important particulars of the four properties were unavailable and hence could not be compared either to one another, or to the subject. Moreover, the Respondent argued that the Complainant is mixing "actual" rates with "typical" rates for his inputs to his Income Approach to Value calculations and this is flawed because it does not meet Appraisal Institute Guidelines.

The Respondent clarified that the Complainant has made much of the "Quality" rating appearing on the City's Assessment Summary Reports. He noted that this rating is used by the City primarily for Business Assessment purposes and played absolutely no part in the Property assessment for the subject and neighbouring properties. Therefore any arguments raised by the Complainant regarding this factor are not relevant. He also noted that through several years of analysis, the City has determined that "Quality" is a proxy for "year-of-construction" and therefore if the "Quality" characteristic is also used simultaneously in the assessment model, it effectively is double-counting which would "skew" the results in a property assessment calculation.

In support of his position, and in a matrix on page 24 of Brief R-1, the Respondent provided nine market sale comparables for the subject. The nine time-adjusted sales were intended to demonstrate that sales of comparable sized properties (ranging from 119,551 SF to 410,483 SF) indicated a range of values from \$86 per SF to \$128 per SF with a median value of \$88 per SF which supports the assessment at \$87 per SF. He explained that the 9 sales were chosen because of the similarity of many of their individual characteristics to the subject, and that all

sales were well within the City's 3-year analysis period.

The Respondent outlined in some detail, the similarities and slight differences of all of his property sales to the subject, noting that certain "adjustments" had been made to year of construction (age); site coverage; sale date; finish; and parcel size, among others, by the City's computerized assessment Model to bring them to a professionally-accepted level of comparability. The Respondent also clarified that all seven of the City's key adjustment categories for industrial properties were also posted on the City's website and have been available for some time to the public and the Complainant. He argued that his sales and equity evidence demonstrate reasonable value within a range as is professionally required.

The Respondent argued that while the Complainant has long had access to the City's adjustment factors information, he had confirmed to the Board that he had made no adjustments whatsoever to any of his comparable properties. Therefore, the Respondent reiterated, their comparability to the subject is invalid and the conclusions drawn from them by the Complainant are seriously flawed.

Ultimately the Respondent noted that the Complainant's value conclusions appeared to be based on faulty methodology that is not industry-accepted. The Respondent requested that the Board confirm the assessment at \$36,960,000.

Board's Analysis and Conclusions - Reasons

The Board concludes from the evidence that the Complainant's position on this issue contains a number of fundamental and fatal flaws.

Firstly, the Complainant has incorrectly defined the City's "base year" as a one-year period – that is from July 1, 2009 to June 30, 2010. On this basis, the Complainant appears to have rejected most of the City's market sales which occurred outside this narrowly-defined period. Moreover, the Complainant has effectively restricted its own search for comparable properties to this one-year period, arguing in so doing, that there is a paucity of sales data to work with and so it must therefore use an Income Approach to Value methodology which was not the methodology used to assess the subject.

Secondly, it is clear from the evidence that the City's so-called "base year" is a three-year period wherein all valid sales from July 1, 2007 to June 30, 2010 – some 154 sales, were used to analyze the market. Moreover, these 154 sales, and the City's methodology for analyzing them, have been published on the City's website since the first of this year (2011) and available to the Complainant. While the Complainant provided these sales in his Brief C-1, nevertheless he appears to have either somewhat disregarded, or not taken advantage of this information. In the Board's view, the Complainant failed to effectively challenge the City's position on this point, preferring, as noted, to limit himself to the noted one-year "base year" period.

Thirdly, the Complainant has failed to make any adjustments whatsoever to his market sale comparables. The Board accepts the Respondent's position that it is necessary to make industry-accepted adjustments for sale date; age; site coverage; parcel size etc. such that an appropriate comparison to the subject can be made. It is clear to the Board that when such

adjustments are made – particularly time-adjustments to selling prices, such as the Respondent has done, that the latter's comparable sales evidence appears to support the assessed value and the Complainant's does not.

Fourthly, the Complainant has made much of the differing "Quality" ratings attributed to each property, a rating used primarily for Business Assessment purposes but which apparently played no part whatsoever in assessment of the subject. The Board accepts the City's clarification that "Year-Of-Construction" is essentially a proxy for "Quality" in the market, and to permit the City's computer model to simultaneously insert a variable for both characteristics, would insert an undesirable anomaly into the calculation and lead to a skewed result. Therefore the Board rejects the Complainant's arguments that the City's market data is flawed because the "Quality" ratings are not similar.

Fifthly, and notwithstanding points #1 and #2 above, the Board concurs with the Respondent that the Complainant's inputs into his Income Approach to Value calculations appear to be fatally-flawed because they inappropriately mix actual and typical values. Moreover, they appear to be largely unsupported, unverifiable, and speculative (i.e. lease values based on "Asking" rates, and/or with no site address, etc). Therefore, the value conclusions extracted by the Complainant from these calculations appear to the Board to be unreliable.

Therefore, on balance, the Board considers that the Complainant's arguments fail regarding this issue.

Issue #2

"The assessment is inequitable when compared to comparable properties."

The Complainant provided an "Equity Study" on pages 31 and 32 of his Brief C-1 in an effort to demonstrate that the assessment of the subject is inequitable when it is compared to comparable properties. He identified 23 properties in a matrix on page 32 showing building sizes ranging from 146,780 SF to 767,000 SF, with year-of-construction dates ranging from 1990 to 2009 which he concluded demonstrated an average and median assessed value of \$75 per SF. The subject is assessed at \$87 per SF.

The Respondent however argued that the Complainant's data was flawed and incomplete because it lacked important site details for each property such that comparisons with each other, and with the subject could not be made. The Respondent provided on page 23 of R-1, a matrix of 45 "large warehouse assessments" - 27 multi-tenant warehouses, and 18 single-tenant warehouses – all of which contained greater individual site details for comparison. The former matrix of 27 properties demonstrated a median value of \$91.09 per SF while the latter 18 properties demonstrated a median assessed value of \$95.21 per SF. He noted that the subject was assessed at \$87 per SF. He argued that properties having similar details should have similar assessments, and he suggested that this data confirmed this point.

The Complainant also referenced the "Bramalea LTD." (BC Court Of Appeal: Bramalea LTD v. British Columbia Assessor for Area 9 (Vancouver) (1990) Legal Decision regarding matters of "Equity" as applied to assessments. He argued on page 31 of his Brief C-1 that based on this Decision:

"The taxpayer is entitled to both an assessment that is not in excess of actual value and an assessment that is equitable."

Furthermore, the Complainant argued that on the basis of this Decision “we’re entitled to equity, even when there are few sales”. Based on his equity evidence, the Complainant requested that the assessment be reduced to \$29,994,000 pursuant to \$68.08 per SF.

The Respondent however, argued that “*Bentall*” (BC Supreme Court Decision *Bentall Retail Services et al v. Assessor of Area #09 – Vancouver (2006)*) makes it clear that “Equity” alone is not enough to effect a change to an assessment. He also argued that the Complainant appears to have misunderstood the *Bramalea* Decision in that the taxpayer is not automatically entitled to the lesser of a market or equity value. The Respondent provided the complete Court Decisions for each of these Cases – “*Bramalea*” on pages 39 – 47; and “*Bentall*” on pages 49 to 69 of R-1.

The Respondent also supplied and referred briefly to MGB Decision DL 068/08; Calgary Assessment Review Board Decisions CARB 1357-2010-P and CARB 1360-2010-P which referenced decisions relating to Market Value VS Income Approach to Value considerations.

The Respondent again requested that the assessment be confirmed at \$36,960,000.

Board’s Analysis and Conclusions - Reasons

The Board finds that the Complainant’s arguments based on equity fail for reasons similar to those noted in issue #1 and for the following. The Board is satisfied that not only are the Complainant’s equity comparables difficult to compare to the subject, but the Respondent’s equity comparables are more detailed and appear to support the assessed value of \$87 per SF.

That said, and in the Board’s view, the Complainant failed to effectively relate each of his equity comparables to the subject in terms of their comparability and support for the Complainant’s desired value of \$68 per SF. Instead, they appeared to demonstrate a much higher value of \$75 per SF. The Board found this position to be conflicting and unhelpful.

And finally, the Board concurs with the Respondent’s interpretation of the clarifying role the “*Bentall* Decision” has had regarding the “*Bramalea*” Decision. The Board notes the following from that Decision with regard to that point:

“ Bentall explicitly states that “Bramalea does not stand for the proposition that the taxpayer is entitled to the lower of a specific equitable value or a specific actual value” [99]. Bentall also contradicts the misinterpretation of Bramalea that has been applied in Alberta; equity trumps actual value, every time. Bentall implies the opposite. It suggests that when market evidence is available then equity alone is virtually meaningless. Market data is required to put the assessment in context before any argument of equity might be entertained. If both market data and equity information are present, then the respective ranges should be examined relative to each other.”

“[99] Bramalea does not stand for the proposition that the taxpayer is entitled to the lower of a specific equitable value, or a specific actual value. There is a range of values which might constitute actual value and a range of value which might constitute equitable value. Bramalea stands for the proposition that when equity is an issue, it is only if the range of values determined to be actual value lies entirely outside the range of values that is equitable, that an adjustment is required.”

"[103]The legislation before me is unambiguous and the concept of "range of values" does not lead to any reasonable doubt to be resolved in favour of the taxpayer."

"[137] I reject the submission of the Appellants that 'equity trumps actual value every time.' The fallacy in this assertion is that it ignores the reality that Bramalea refers to a range of values, rather than to a precise value."

*"[138] I also reject the Appellants' assertion that 'an assessment can be built on equity alone'. This assertion stems exclusively from **GDP***, where the evidence presented a unique set of circumstances; there was no evidence at all from which actual value could be determined. Consequently, there was no alternative but to employ an equity method of assessment. That case is significantly different from the case at bar, where there is ample evidence of market data which enabled the Board to reject the Appellants' novel equity approach as an unsound appraisal methodology."*

(footnote – Assessor of Area 05 – Port Alberni v. GDP Investments Ltd. (2001), B.C. Stated Case 450, 2001 BCSC 1540 ('GDP')) "

Complainant's Rebuttal

The Complainant submitted Brief C-2 being his rebuttal document. He noted that AEC concurs with the City regarding Multiple Regression analysis as per page 9 of the City's Brief R-1 but disagreed with the City Model's ability to accurately predict the assessed value of buildings over 100,000 SF. He further argued that:

1. Only nine sales submitted by the City in R-1 – very limited
2. Only 2 sales in the base year (City)
3. Sale dates vary from Dec. 2007 to Nov. 2010 – not homogeneous
4. Site coverage vary from 26.41 to 60.05 – not homogeneous
5. Year of constructions vary from 1978 to 2009 – not homogeneous
6. Property locations vary from NE and SE – not homogeneous
7. Finish levels vary from 0 to 47% - not homogenous
8. Building sizes vary from 119,551 to 410,483 SF – not homogeneous
9. Parcel sizes vary from 6.46 to 30.24 acres – not homogeneous

The Complainant reiterated that his comparables were indeed comparable to the subject and a rate of \$68 per SF as determined from his Income Approach to Value calculations was warranted. He again argued that the City's comparables were not comparable when one compares the "Quality" ratings for each of them to the subject. He referenced several properties in his matrix of 23 comparables, noting that they apparently retained "Quality" ratings of "A" and "A++" and this supported his position.

The Complainant suggested therefore in his Rebuttal document C-2 that on an equity basis, the subject should be assessed at \$31,583,000.

The Respondent argued that he had addressed each of these nine points, and the "Quality" rating argument, in great detail during the hearing and still profoundly and fundamentally disagreed with the Complainant's arguments.

Board's Analysis and Conclusions - Reasons

The Board is satisfied from its own close examination, that the City's market and equity comparables are similar to the subject and each have received appropriate "adjustments" as required pursuant to professionally-accepted practice. It was noted that the Complainant's comparables were not adjusted and hence their comparability to each other and the subject was questionable. In addition, the Board accepts the Respondent's position that using "homogeneous" comparables does not mean using "identical" comparables, nor did the "Quality" rating play a significant role in the market-based assessment of the subject.

Board's Summary Conclusions

The Board is therefore of the view that considering all of the foregoing, and on balance, the Complainant has failed to persuade the Board on the basis of the evidence presented, that the assessment is either incorrect or inequitable.

Board's Decision:

The assessment is confirmed at \$36,960,000

DATED AT THE CITY OF CALGARY THIS 26th DAY OF August 2011.


K. D. Kelly
Presiding Officer**APPENDIX "A"****DOCUMENTS PRESENTED AT THE HEARING
AND CONSIDERED BY THE BOARD:**

NO.	ITEM
1. C-1	Complainant Disclosure Brief
2. C-2	Complainant Rebuttal Document
3. R-1	Respondent Disclosure Brief

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.*