

**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:

Metrus Western Properties Inc (as represented by Altus Group), COMPLAINANT

and

The City Of Calgary, RESPONDENT

before:

D. Trueman, PRESIDING OFFICER

Y Nesry, MEMBER

J Rankin, 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: 031021108

LOCATION ADDRESS: 3400 39th Ave. NE.

HEARING NUMBER: 63785

ASSESSMENT: \$125,410,000

This complaint was heard on 6th day of October, 2011 at the office of the Assessment Review Board located at Floor Number 3, 1212 – 31 Avenue NE, Calgary, Alberta, Boardroom 11.

Appeared on behalf of the Complainant:

- *J Weber, D Mewha, C VanStaden*

Appeared on behalf of the Respondent:

- *M Berzins*

Background

The hearing began with the Complainant advising the Board that this complaint is part of an agenda for hearings this week which related to generally larger industrial warehouse properties. In respect of this he advised the panel that he had prepared evidentiary documents that would be common to most of the decisions that the panel would make throughout the week and which had been presented at the first hearing. He said that these documents pertained to an Income Approach to value which he said was more appropriate, for valuation purposes, than the Direct Sales Comparison Approach used by the assessor. Without a re-presentation of his argument he asked the Board to be reminded of his comments in this regard and that they should be referenced in this decision. The Respondent accepted this general argument submission and agreed that such evidentiary material had been exchanged. The panel acknowledged the documents which had been marked as Complainant exhibits GC 1, GC 2, GC 3, GC 4 and GC 5 which would be used accordingly when referenced throughout this hearing.

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

The parties agreed that there were no procedural or jurisdictional matters prior to the commencement of this hearing.

Property Description:

The property is described as the largest warehouse facility in the City of Calgary. It is a distribution warehouse operating as the distribution center for the Wal-Mart retail chain in the Prairie provinces. Including the newer addition of 200,494 ft.² (built 2005) it totals 1,201,991 ft.², as described in the parties Cost Approach, and was constructed in the year 2000. It occupies a site area of 128.79 acres in the Northeast "Horizon" district. It is elaborately equipped with an overhead conveyor system and anecdotally boasts remarkable handling times for the merchandise it warehouses. There is a small ancillary guard/security building on the property totalling 450 ft.².

Issues:

A variety of issues were described on the original complaint form however at hearing the panel determined that the issues are:

- 1/ Does the Complainant's Income Approach yield a more convincing value conclusion than the assessor's Cost Approach?
- 2/ Has the matter of excess land been correctly handled by the assessor?
- 3/ Has the requirement of equity with similarly assessed properties (fairness) been achieved with the current assessment amount?

Complainant's Requested Value: \$97,370,000 according to the complaint form however, at hearing the Complainant requests that a correct calculation involving excess land be considered resulting in an assessment request amount of \$109,540,000.

Complainant's position

Issue #1 The Complainant asserted that the subject property was unique with respect to its size and that given its tenancy and other economic factors the only basis upon which it would transact would be its' appeal as an investment. He said that the assessor had erred in his use of the Cost Approach as his primary valuation method. He presented market lease information relating to industrial buildings in excess of 100,000 ft.². This information generally supported market lease rates for the subject property in a range from \$6.45 a square foot to \$7.30 a square foot. He had earlier testified and supplied evidence that a 5% vacancy allowance and 7.75% capitalization rate were appropriate factors. He said that when applying a rental rate of \$6.65 a square foot; this was his primary support for his requested assessed value of \$97,936,820, net of excess land.

Issue #2 The Complainant points to the 2011 Assessment Explanations Supplement which describes that the subject property has been assessed with an area of "extra land" of 36.87 acres. He drew the Board's attention to the published document entitled "City Industrial Land Rates" which pointed out that in the area of the subject, values were \$925,000 per acre for the first 2 acres and \$600,000 per acre thereafter; to a maximum parcel size of 10 acres. He says that such a proposition, for any excess land value, cannot be supported because of the physical constraints to access to any so-called extra land. He testified that this is one of the primary reasons why his income approach to value is the better approach to value.

Issue #3 The Complainant presented five equity comparables which produced a median assessment amount of \$84 a square foot. To this he added an excess land calculation incorporating a discount factor of 40%. The sum of the above resulted in an assessment amount for the subject property of \$111,331,103 or \$93 a square foot. He said that this was support for his requested assessment, from the income approach, of \$109,548,320.

Respondent's position

Issue #1 The Respondent agrees that the subject property is unique. Therefore his best approach to a correct assessment value is with his use of Marshall and Swift cost and depreciation data. This has resulted in an assessment for the improvement portion of the subject property, including the guard station, of \$74,079,433 (net of land value). Once land value is added the subject property demonstrates a unit value of \$104 a square foot and the assessor supports this contention with his presentation of a chart of "large warehouse sales"

which reveals a median unit value of \$114 a square foot.

Issue #2 The assessor presented the Board with a total land value for the subject property of \$51,332,897. He advised the Board that this included an amount for excess land which was calculated based upon a standard assumption of land requirement for warehouses throughout the City. This standard assumption relates to a 30% site coverage ratio for industrial properties. The assessor was not forthcoming with regard to his method of calculation for the total land value.

Issue #3 The Respondent provided a chart of 14 assessed "Large Warehouse Equity" comparables. These indicated a median assessed value of \$102.55 a square foot which the assessor determined to be support for his assessed value for the subject property of \$104.38 a square foot.

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

Issue #1 The Board agrees with the parties that because of its size the subject property is properly described as "unique". For this reason the Board has little confidence in the generic capitalization rate study performed by the Complainant. A capitalization rate for the subject property should be gleaned from specific properties with specific characteristics similar to the subject. On the other hand it has long been recognized that the Cost Approach to value provides useful valuation information for unique properties requiring special treatment. The Board has decided that the assessor has not erred with respect to his use of the Marshall and Swift data however, given that his final value conclusion requires a supported land value a more complete understanding of this component is required.

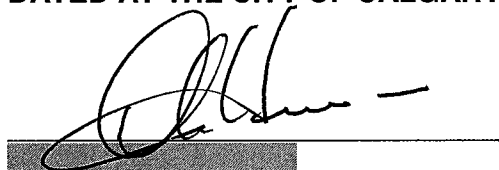
Issue #2 In order to test the value conclusions presented by the parties, the Board sought comparability with the subject, from the variety of valuation indices provided by the parties. It was discovered that there were three properties with addresses listed that were occupied by single users in the larger than 100,000 square-foot size category. All others were either multi-tenant properties or otherwise not fully described. It was discovered that on average, larger single tenant warehouse buildings occupied roughly 37% of their site. To test this further the average of the single tenant equity comparables demonstrated that average site coverage factors were slightly in excess of 40%. Based upon a 40% site coverage ratio, it is therefore reasonable to establish that the subject property requires a site of 68.8 acres. It is also reasonable to believe that, whether or not there is outside access to the resulting 60 acres of excess land, there is nevertheless internal access which affords room for expansion for the existing improvements. Given that the only evidence presented to the Board was that north east industrial land parcels were valued at \$6,650,000 for 10 acre sites, without further evidence of any kind for larger parcels, the Board has determined this to be the value for excess land. Since the size of the subject improvements are 1,201,991 ft.², a unit value of \$5.53 a square foot will be added to an appropriate unit value for land and building, on a typical sized site. The Board has determined that from the best comparable building values an average unit value of \$93.28 a square foot is indicated and when added to the above \$5.53 an indicated unit value for the subject property, inclusive of excess land is \$98.81 a square foot. This results in an aggregate building and excess land value of \$118,768,730.

Issue #3. The Board was unable to understand the Complainants calculation for excess land and was therefore not convinced that his equity comparables were of similar enough property types on which to base an equity decision.

Board's Decision:

The appeal is granted and the assessment is reduced to \$118,770,000.

DATED AT THE CITY OF CALGARY THIS 8 DAY OF November 2011.



Presiding Officer

APPENDIX "A"

**DOCUMENTS PRESENTED AT THE HEARING
AND CONSIDERED BY THE BOARD:**

NO.	ITEM
1. GC 1	Complainant "Generic" Disclosure
2. GC 2	" " "
3. GC 3	" " Rebuttal
4. GC 4	" " "
5. GC 5	" " "
6. C1	Complainant Disclosure
7. C2	" Rebuttal
8. R1	Respondent Disclosure
9. R2	" Photos

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.*

FOR ADMINISTRATIVE USE

Subject	Property Type	Property Sub-Type	Issue	Sub-Issue
CARB	Warehouse	Warehouse Single User	Valuation Approach	Lease rate