

**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:

3509893 Canada Inc. (as represented by Altus Group Limited), COMPLAINANT

and

The City Of Calgary, RESPONDENT

before:

I. Weleschuk, PRESIDING OFFICER

P. Pask, MEMBER

J. Pratt, 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 2012 Assessment Roll as follows:

ROLL NUMBER:	024024200
LOCATION ADDRESS:	901 57 Avenue N.E.
HEARING NUMBER:	68188
ASSESSMENT:	\$10,130,000

- [1] This complaint was heard on 31st day of October, 2012 at the office of the Assessment Review Board located at Floor Number Four, 1212 – 31 Avenue NE, Calgary, Alberta, Boardroom 5.

Appeared on behalf of the Complainant:

- D. Mewha
- R. Worthington

Appeared on behalf of the Respondent:

- J. Greer
- M. Hartmann

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

- [2] There were no procedural or jurisdictional matters raised by either party. Neither party objected to the panel before them.

Property Description:

- [3] The subject is located in the Deerfoot Business Centre in northeast Calgary, on 4.37 acres of land, and zoned as Industrial General (I-G). It is a warehouse with a footprint of 89,567 square feet (SF) and a total assessable area of 99,000 SF. The building was built in 2000, has 19% finish and 47.01% site coverage. The assessment is calculated using a sales comparison approach, with a rate of \$102.35/SF applied to the assessable building area.

Complainant's Requested Value: \$7,600,000

Issues:

The issue relates to determining the correct 2012 assessment for the subject property, and specifically:

1. What is the correct valuation method to arrive at a market value for assessment purposes?
2. What is the correct assessment of the subject?
3. Is the assessment equitable?

Issue 1: What is the correct valuation method to arrive at a market value for assessment purposes?

- [4] The Complainant's position is that the subject is an investment grade property, therefore the price that a purchaser will pay (the market value of the property) is determined by the income that the property can produce. Therefore, the income approach provides the best indication of the value of such a property. The Complainant presented excerpts from various appraisal texts and manuals, as well as previous Board decisions to support this position (Exhibits C1 and C2).
- [5] The Respondent's position is that they have sufficient sales to allow the City to derive an assessment model based on sales. The Respondent commented that there were a number of weaknesses related to the income approach done by the Complainant, which made that analysis unreliable or less reliable than the City's sales approach. The City did not use an income approach for industrial warehouse properties in the 2012 assessment year, so therefore had no specific evidence to illustrate the weaknesses.
- [6] The Board understands that each party has their own opinion as to the best or most appropriate approach to valuation. The Board notes Section 4(1) of Matters Relating to Assessment and Taxation Regulation which states that:

"the valuation standard for a parcel of land is (a) market value,..."

Therefore, any valuation methodology that reflects market value is an acceptable approach. The Board will consider the evidence rather than preclude a valuation approach. In other words, the Board's decision will not turn on methodology, but on the evidence related to the market value of the subject.

Issue 2: What is the correct assessment of the subject?

Complainant's Evidence

- [7] The Complainant began by presenting two comparable properties used for both the sales and equity comparison (page 13, Exhibit C1). The Complainant attempted to derive an adjustment for % site coverage, year of construction and finish. Comparables were presented to support the quantum of each factor (page 14-22, Exhibit C1). Based on this analysis and applying the derived adjustment factors, the Complainant concluded that the value of the subject property using a sales comparison approach is \$9,048,100 or \$91.39/SF, and using the equity comparison approach is \$8,743,194 or \$88.32/SF. A cover page and transmittal page from an appraisal of the subject property is presented on pages 23-24 of Exhibit C1 indicating a market value as of October 31, 2010 at \$7,450,000, but the body of the appraisal report was not in evidence.

- [8] The Complainant argued that the subject is an investment grade property and the income approach is the best indicator of the market value of an investment grade property. The income approach summary is presented on page 30 of Exhibit C1, resulting in the requested assessment of \$7,600,000 (about \$76.80/SF). Exhibit C2 is the "Altus Income and Direct Sales Comparison Analysis" report that provides the basis for the various factors used in the income approach, together with support documentation for the income approach methodology used. The Complainant presented the report in some detail. Based on this analysis, the indicated vacancy rate is 4% based on industry reports (page 12-13, Exhibit C2), and the capitalization rate is 7.50% based on four sales of properties over 100,000 SF (page 13-15, Exhibit C2).
- [9] The Complainant presented five comparables to demonstrate the market lease rate (page 31, Exhibit C1). One of these leasing comparables is the subject property which is currently vacant but leased at a rate of \$6.45/SF between August 1, 2009 to March 31, 2011. The median of the five comparable leases is \$6.65/SF. Because the subject property is currently vacant, to reflect the risk associated with the vacancy, the Complainant selected a rent rate of \$6.00/SF as an input in the income approach, to calculate the requested assessment of \$7,600,000 (rounded) (page 30, Exhibit C1).
- [10] On page 30, Exhibit C1, the Complainant sets out a calculation that works backward from the assessment of \$10,130,000 to indicate that a rent rate of \$7.99/SF is required to support the assessment, using the Complainant's other income approach factors. The Complainant argued that this lease rate was unreasonable for the subject and considerably above market rent.
- [11] The Complainant presented a summary of the four comparable sales used to derive the capitalization rate and their rent rolls (page 15, Exhibit C2). The rental rate varies by size of building/bay and date of the lease, but the market rent rates for these four buildings has a median of \$8.20/SF.
- [12] In rebuttal, the Complainant took issue with the three of the sales comparables presented by the Respondent (page 5, Exhibit C3) and presented evidence as to why these sales were not comparable (Exhibit C3). The median time adjusted sale price of the four sales comparables not disputed is \$86.91/SF (page 5, Exhibit C3).
- [13] Based on the income approach, and the quantum of factors derived by the Complainant and presented in their evidence, the Complainant concluded that the subject would attract a market rent of \$6.00/SF, the market capitalization rate is 7.75% and the market vacancy rate is 4%, all rates applicable to the subject property. The result is an indicated value of \$7,600,000, which is the requested assessment.

Respondent's Evidence

- [14] The Respondent presented a summary table of seven sales comparables (page 16, Exhibit R1), four of which are multi-tenant buildings. The time adjusted median sale price of these comparables is 96.95/SF. The Respondent argued that if qualitative adjustments are made to consider the differences between the subject and the median characteristics reflected by the seven sales comparables, the assessed rate of \$102.35/SF is supported.

- [15] The Respondent presented a summary table of five warehouse properties in northeast Calgary (page 18, Exhibit R1) as equity comparables. The characteristics of these comparables straddled the respective characteristics of the subject, and indicated a median assessment of \$104.38/SF. The Respondent argued that these equity comparables indicate that the subject is equitably assessed.
- [16] The Respondent presented evidence in Exhibit R1 to suggest how the capitalization rate was trending over the last four years, and the current capitalization rate is in the order of 6.50 to 6.75%. The Respondent also challenged the Complainant's position that the income approach was the best approach for warehouse properties and questioned some of the specific mechanics of the methodology used by the Complainant.

Conclusions of the Board in this Matter

- [17] The Board was presented with essentially two different approaches to derive value, with each party focusing on presenting evidence to support their approach. The Board reviewed all the information presented for both the sales comparison and income approaches.
- [18] After reviewing all the sales comparables presented by both parties and the discussion on each of the sales, the Board noted that both parties agreed that the sale of the property located at 930 64 Avenue NE is a valid comparable sale (page 16, Exhibit R1 and Page 5, Exhibit C3). The Board further noted that this sale is very comparable to the subject property, being slightly larger and three years older. Its time adjusted sale price is \$105.07/SF. The other comparable sales presented are less comparable, so the Board puts less weight on those sales, especially since the Respondent did not provide any adjustments other than for time.
- [19] The Board appreciates the efforts by the Complainant to attempt to derive adjustments for a number of characteristics based on assessments, to adjust the two sales comparisons presented by the Complainant. The two sales are quite different than the subject, so the Board finds this analysis less reliable.
- [20] The Board understands the income approach and the basis for calculating the key variable used in the income approach calculation. As presented on page 30, Exhibit C1, the key factor in the calculation is the rental rate used. The Board notes that the market rental rate presented on page 31, Exhibit C1 includes the subject property (expired lease) and four other comparables that are much larger than the subject (about twice to four times larger). The median of these five market lease comparables is \$6.65/SF. However, the Board does not find these leases to be reflective of the market rent for the subject due to the size differences.

- [21] The Complainant presented rent roll information on the four sales used to derive the capitalization rate on page 15, Exhibit C2. The most current lease is a 42,915 SF bay in 10905 48 Street SE that leased in March 2010 for \$9.75/SF. The 91,894 SF bay in 7007 54 Street NE, which the Board understands is a stand-alone building on a multi-building property, leased in January 2009 at a rate of \$8.50/SF and is just smaller than the subject property. The median rent rate for these four sales as presented in the capitalization rate calculation on page 14, Exhibit C2 is \$8.20/SF. The Board also notes that the market rent rate indicated for the 930 64 Avenue NE property, which is the most comparable to the subject property, is \$7.67/SF.
- [22] The Board notes that the selection of \$6.00/SF as the market rent for the subject is rather arbitrary, and is not supported by any market lease information presented in any of the Complainant's Exhibits. The market leasing information presented on page 31, Exhibit C1 is at a median of \$6.65/SF, based on properties much larger than the subject, so the Board would expect the market rent for the subject to be greater than that median, all else being equal. Furthermore, the subject lease that expired in March 2011 was at \$6.45/SF and no evidence was presented to indicate that lease rates were declining.
- [23] Based on the evidence presented, the Board does not accept the Complainant's position that the market rent rate is \$6.00/SF for the subject. As presented on page 30, Exhibit C1, using the Complainant's income approach factors indicates a rental rate of \$7.99/SF based on the assessment. A rental rate of \$7.99/SF is not unreasonable based on the evidence, as discussed.
- [24] Based on the comparable sale at 930 64 Avenue NE, and a review of the lease rates presented, the Board is not persuaded that the assessment is incorrect.

Issue 3: Is the assessment equitable?

Complainant's Evidence

- [25] The Complainant did not present any evidence to demonstrate that the requested assessment at \$7,600,000 or \$76.80/SF is equitable compared to other similar properties. The limited equity evidence presented on page 13, Exhibit C1 indicates that a rate of \$88.32/SF would be equitable, but is not tied to the value derived using the income approach.

Respondent's Evidence

- [26] The Respondent presented five equity comparables on page 18, Exhibit R1 that support the assessment of \$102.35/SF as being equitable. The two most similar equity comparables are at \$104.38/SF (930 64 Avenue NE) and \$110.30/SF (6875 9 Street NE).

Conclusion's of the Board in this Matter

- [27] The Complainant presented no evidence to support the requested assessment at \$76.80/SF as being equitable, and little evidence to persuade the Board that the assessment is not equitable. The Board prefers the Respondent's equity evidence, which supports the assessment. The Board concludes that the assessment is equitable.

Board's Decision

- [28] For the reasons discussed above, the Board concludes that the 2012 assessment reflects market value and is equitable. The Board confirms the 2012 assessment of \$10,130,000.

DATED AT THE CITY OF CALGARY THIS 16th DAY OF November 2012.



Ivan Weleschuk
Presiding Officer

APPENDIX "A"**DOCUMENTS PRESENTED AT THE HEARING
AND CONSIDERED BY THE BOARD:**

NO.	ITEM
C1	Complainant's Disclosure
R1	Respondent's Disclosure
C2	Complainant's Income and Direct Sales Analysis
C3	Complainant's Rebuttal

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.*