

**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:

Airstate Ltd. (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:	091098400
LOCATION ADDRESS:	1360 Highfield Cres. S.E.
HEARING NUMBER:	68280
ASSESSMENT:	\$20,340,000

Appeared on behalf of the Complainant:

- D. Mewha

Appeared on behalf of the Respondent:

- J. Greer
- M. Hartmann

- [1] This complaint file was opened on the 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. The Respondent raised a preliminary objection related to the disclosure of a document titled “Altus Income & Direct Sales Comparison Analysis”. The hearing was suspended to allow the Complainant time to review their files and be in a position to address the objection. The hearing was re-opened on November 1, 2012 at the office of the Assessment Review Board located at Floor Number Four, 1212 – 31 Avenue NE, Calgary, Alberta, Boardroom 5.

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

- [2] Neither party objected to the panel before them.
- [3] At the beginning of the hearing, the Respondent raised a preliminary matter, specifically that the “Altus Income & Direct Sales Comparison Analysis” had not been properly disclosed for this file. The Complainant stated that the same document was part of a number of files and thought that one email with the document may have been sent, with the intention that the document be included for a number of files. After considering the matter, the Board decided to reschedule this hearing to the following day, to allow the Complainant to review their files and determine if the document had been properly disclosed. The following day, the file was re-opened and the Complainant stated that they could not find any documents in their files to indicate that the file had been properly disclosed. The Respondent then stated that they had received the document as part of other files so responded to the content of the document in their evidence package. The Respondent stated that they would withdraw the objection to entering the document as evidence, provided that pages 89 to 101 are removed. The Complainant agreed to remove pages 89 to 101 from the document. The hearing proceeded.
- [4] Much of the evidence in this hearing was presented as part of File 68188 (CARB Decision No. 2298/2012-P). Both parties requested the option of being able to carry over the detailed presentation of the evidence, questions and answers, as indicated by each party. The Board agreed to this procedure.

Property Description:

- [5] The subject is located in the Highfield District of southeast Calgary, in the Central assessment region. The property is 13.60 acres of land, and zoned as Industrial General (I-G). It consists of two buildings used as industrial warehouses, one with an assessable building area of 90,735 square feet (SF) and the other with an assessable building area of 103,000 SF, for a total assessable area of 193,735 SF. The smaller building was built in 1995, has 2% finish and 32.59% site coverage and is assessed at a rate of \$103.20/SF. The larger building was constructed in 1999, has 3% finish, 32.59% site coverage and is assessed at \$106.64/SF. The difference in rate is due to the buildings being in different assessment size categories. The assessment is done using a sales comparison approach. The total assessment translates into a rate of \$105/SF.

Complainant's Requested Value: \$16,730,000

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 and is the assessment equitable?

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

- [6] The Complainant's position is that the subject is an investment grade property, thus 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 is 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).
- [7] The Respondent's position is that they have sufficient sales that 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 had no specific evidence to illustrate the weaknesses.

- [8] The Board understands that each party has their own opinion as to what is 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 instead will focus on the evidence related to the market value of the subject.

Issue 2: What is the correct assessment and is the assessment equitable?

- [9] The Complainant presented sales comparables, equity comparables and income approach evidence in one presentation, therefore the Board will consider both the issue of the correct assessment value and whether the assessment is equitable together, rather than trying to apportion the evidence and argument into distinct issues.

Complainant’s Evidence

- [10] The Complainant’s position was the approach used by the City to prepare the assessment is flawed in that they used a sales comparison approach based on the value of similar sized, individual buildings on a parcel, and applied those respective rates to the subject buildings, then had the assessment model make an adjustment for multiple buildings on a parcel. The Complainant argued that a purchaser looks at the total building area, and pays for total building area regardless of whether that area is contained in one or more than one building on a parcel.
- [11] The Complainant presented five sales comparable properties (page 13, Exhibit C1), two from northeast Calgary and three from southeast Calgary, with one of these from the Central assessment region. Because these five sales were not similar to the subject, they required adjustments. Rather than make adjustments for each key characteristic, the Complainant argued that lease rates capture all the factors within a building, therefore could be used as the basis for the adjustment. In other words, market rent is a surrogate for all the other factors that affect building value. This approach was supported by evidence presented from appraisal texts, assessment texts and previous Board decisions.
- [12] Leasing comparables are presented on page 16, Exhibit C1. Seven leasing comparables from the Central region are presented, indicating a median lease rate of \$6.75/SF. Sixteen leasing comparables are presented from the southeast region, apparently an inferior area to the subject Central region, with a median lease rate of \$5.83/SF. Information on the actual rent being achieved by the subject building is apparently presented on pages 17-18, Exhibit C1 but the address of the building is 3201 Ogden Road SE. This rent roll shows a range in rental rate between \$6.25 to \$7.25/SF. The Complainant also presented 2012 Business Assessment information and decisions related to the subject property to support the rental rates.

- [13] The \$6.75/SF rate is used as the subject market rent, and used in the adjustment of the five sales comparables on page 13, Exhibit C1. Based on this adjustment process, the indicated value of the subject is \$85/SF using this sales comparison method.
- [14] The Complainant presented equity comparables on page 14, Exhibit C1. The Median of two, three-building parcels is \$90/SF and the median of eight single building comparables is \$89/SF. The Complainant stated that this supports the \$85/SF calculated using the sales comparison approach.
- [15] The Complainant presented the evidence related to deriving a vacancy rate of 4% and capitalization rate of 7.50% with the supporting documentation in Exhibit C2.
- [16] Using the vacancy and capitalization rates derived in Exhibit C2, and applying the rental rate of \$6.75/SF discussed above, the Complainant presented an income approach calculation on page 15, Exhibit C1, resulting in the requested assessment of \$16,730,000, translating into a rate of \$86/SF.
- [17] In rebuttal, the Complainant presented Exhibit C3 and C4, which provided further support to the comparables presented by the Complainant in Exhibit C1 and disputed some of the information and validity of sales and equity comparables presented by the Respondent in Exhibit R1.

Respondent's Evidence

- [18] The Respondent argued that its approach to assessment is correct. The majority of the sales data is for single building properties. The assessment model has a factor that adjusts for multi-building properties. Therefore the assessed value reflects market value.
- [19] The Respondent presented a summary table of five sales comparables (page 15, Exhibit R1), which straddled the sizes of the two subject buildings. The time adjusted median sale price of these comparables is \$82.52/SF. The Respondent argued that if qualitative adjustments are made to consider the differences between the subject and the median characteristics reflected by the five sales comparables, the assessed rate of \$103.20/SF for the smaller subject building and \$106.64 for the larger subject building is supported.
- [20] On page 16, Exhibit R1, the Respondent presents three sales comparables with two buildings on each parcel. While these sales comparables are different than the subject property, the time adjusted sale prices range from \$105/SF to \$128/SF, supporting the rates used for the assessment.
- [21] The Respondent noted that their sales analysis shows a size-value relationship for building of less than 100,000 SF where the smaller the building the higher the price. As the size approaches 100,000 SF, this relationship reverses, with larger buildings selling for more than smaller buildings on a per square foot basis. The Respondent discussed reasons for this dynamic, and stated that the assessment model captures this market dynamic.

- [22] The Respondent presented a summary table of seven warehouse properties in the Central assessment region (page 19, Exhibit R1) straddling the 90,000 SF size of the smaller subject as equity comparables. All these buildings are 15+ years older than the subject. The median assessment per SF is indicated as \$81.25/SF. Page 20, Exhibit R1 presents seven equity comparables for the larger building, straddling 103,000 SF in size. The indicated assessment is \$81.25/SF. The Respondent argued that when qualitative adjustments are made to better reflect the characteristics of the subject buildings, these equity comparables indicate that that subject is equitably assessed.
- [23] The Respondent challenged the leasing data presented by the Complainant, stating that it was not comparable and that the rates used by the Complainant did not reflect market rates.
- [24] 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


- [25] 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.
- [26] The Board has some concerns related to using single buildings on a parcel to derive the market rate, and then applying those rates to calculate the assessment of a multi-building property, even if the assessment model includes a factor to recognize the multi-building characteristic. The Respondent did not present any evidence to demonstrate that the model is making the appropriate adjustment.
- [27] With regard to the Complainant's sales comparable approach using rental rates to adjust the characteristics of the comparable sale properties to that of the subject, the Board has some concerns with the approach. Specifically, the Board is not persuaded that the leasing comparables presented on page 16, Exhibit C1 reflect the market rent for the subject. The Board notes that the two sales comparables with the most similar size to the subject (10905 48 St SE and 7007 54 St SE), albeit newer construction, are both renting at more than \$9/SF (page 13, Exhibit C1).
- [28] The Respondent's sales comparables (page 15, Exhibit R1) indicate a median value of \$82.52/SF, a difference of more than \$20/SF from the assessed values. The Board does not accept a qualitative, "make the adjustments in your head" approach to explain such a large difference. This does not demonstrate that the assessment model is making the appropriate adjustments for multi-building properties.

- [29] The equity comparables presented by the Complainant include buildings constructed in 1998 or newer, and most substantially larger than the total assessed area in the two subject buildings. However, the most comparable in size, located at 5498 76 St SE, is assessed at \$88/SF.
- [30] The Respondent's equity comparables (on pages 19 and 20, Exhibit R1) are also older than the subject buildings, except for two comparables presented on Page 20, both built in 2000. These are slightly larger than either of the two subject buildings, and are assessed at \$91.74 and \$95.68 per SF.
- [31] After considering all the evidence, the Board finds no sales or equity data that supports the \$103.20/SF and \$106.64/SF rates used in the 2012 assessment. Without getting into a detailed discussion of the strengths and weaknesses of the Complainant's income approach, the resulting \$86/SF rate is supported by the sales and equity comparables presented by the Respondent. The Respondent's assertions related to qualitative adjustments are too intangible to place much weight on. For these reasons, the Board concludes that the market value of the subject, supported by equity comparables is \$86/SF, or \$16,730,000.

Board's Decision

- [32] For the reasons discussed above, the Board concludes that the 2012 assessment be reduced to \$16,730,000.

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
C2	Complainant's Income and Direct Sales Analysis with pages 89 to 101 removed
R1	Respondent's Disclosure
R2	Respondent's Disclosure
C3	Complainant's Rebuttal
C4	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.*