



Calgary Assessment Review Board

DECISION WITH REASONS

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

between:

Foothills Equities Inc.
(as represented by Altus Group Limited), COMPLAINANT

and

The City Of Calgary, RESPONDENT

before:

M. Vercillo, PRESIDING OFFICER
R. Deschaine, BOARD MEMBER
J. Mathias, BOARD 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 2013 Assessment Roll as follows:

ROLL NUMBER: 097017305
LOCATION ADDRESS: 5820 48 ST SE
FILE NUMBER: 72266
ASSESSMENT: \$16,170,000

This complaint was heard from the 15th day of July, 2013 at the office of the Assessment Review Board located at Floor Number 4, 1212 – 31 Avenue NE, Calgary, Alberta, Boardroom 5.

Appeared on behalf of the Complainant:

- *J. Weber*

Appeared on behalf of the Respondent:

- *J. Greer*

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

[1] The Calgary Composite Assessment Review Board (CARB) derives its authority to make this decision under Part 11 of the Act. No specific jurisdictional or procedural issues were raised during the course of the hearing, and the CARB proceeded to hear the merits of the complaint, as outlined below.

Property Description:

[2] The subject property is a multi-tenanted industrial warehouse (IWM), located in the Foothills Industrial district of SE Calgary and is zoned Industrial-General. According to the information provided, the property contains one building that is 177,002 square feet (sf) in size, was constructed in 1995 and is situated on an assessable land area 7.61 acres. The building has a 5% office finish ratio with a site coverage of 53%.

[3] The subject is assessed using the Direct Sales Comparison Approach (DSCA) to value at a rate of \$91.35 per sf.

Issues:

[4] The CARB considered the complaint form together with the representations and materials presented by the parties. However, as of the date of this hearing, the following issue remained in dispute:

- a) The subject property is in excess of market value as indicated by the Income Approach to value, which is the more reliable valuation methodology for the subject property.
- b) The assessment per sf applied to the subject property is inequitable with the assessments of other similar and competing properties.

Complainant's Requested Value: \$14,560,000

Board's Decision:

[5] The complaint is accepted in part and the assessment is revised at \$15,030,000.

Legislative Authority, Requirements and Considerations:

[6] As in accordance with MGA 467(3), a CARB *must not alter any assessment that is fair and equitable, taking into consideration*

- a) *The valuation and other standards set out in the regulations,*
- b) *The procedures set out in the regulations, and*
- c) *The assessments of similar property or businesses in the same municipality.*

Position of the Parties

ISSUE 1: The subject property is in excess of market value as indicated by the Income Approach to value, which is the more reliable valuation methodology for the subject property.

Complainant's Position:

[7] The Complainant provided a 18 page document entitled "Evidence Submission of Complainant" that was entered as Exhibit C1, however, the Complainant requested that all evidence and argument made on this issue in hearing file #72103 be brought forward to this hearing. Therefore, the 208 page disclosure document entitled "Capitalization Rate" that was entered as "Exhibit C2" in hearing file #72103 shall be brought forward to this hearing. The Complainant along with Exhibits C1 and C2 from hearing file #72103, provided the following evidence and argument with respect to this issue:

[8] Various excerpts from the Market Value and Mass Appraisal for Property Assessment in Alberta, Valuation Guide were cited. Specific to warehouse assessments it was noted that it was important to stratify warehouses according to their various physical attributes, including the stratification by size. It was also noted that when applying the DSCA methodology it is very important that when there is insufficient comparable sales data, another valuation approach should be used.

[9] Quoting from the International Association of Assessing Officers (IAAO), the Complainant offered that the DSCA valuation is the least appropriate of the three valuation techniques when assessing industrial properties, citing Cost and Income Approaches as the most favoured approaches.

[10] A chart of six industrial sales comparables of new construction (class A) buildings. The sale dates of the comparables varied from August 18, 2009 to July 11, 2011. The oldest sale was the largest sized building of the group and was the only industrial warehouse that was a single-tenanted warehouse (IWS). The other five industrial warehouse comparable sales were all IWM properties. Year of construction ranged from 1997 to 2009. Site coverage varied from 43% to 47%. Number of bays varied from 10 to 1 for the IWS building, with bay sizes averaging from 22,144 sf to 302,135 sf for the IWS building. The total rent roll area varied from 118,402 sf to 302,135 sf for the IWS building. The estimated typical rents varied from \$6.65 for the IWS building to \$9.75 per sf. The typical rents were derived from lease rate information of the comparable properties at the time of sale. The typical capitalization rate (cap rate) derived, varied from 7.47% to 6.26% with a median rate of 7.16%. It was noted that the three most dated sales had a median cap rate of 7.47%, while the most current three sales, all occurring between March and July, 2011 had a median cap rate of 6.50%. The median 6.50% cap rate was derived

by using typical lease rates of \$7.00 for leased space over 50,000 sf, \$7.50 for leased space between 25,000 and 50,000 sf and \$8.50 for leased space between 0 and 25,000 sf.

[11] A variety of third party cap rate studies from various sources were provided to lend some support to the 6.50% median cap rate derived by the Complainant in the aforementioned sales comparable study.

[12] A rent roll document for the subject properties. The rent roll revealed the following information:

- a) 38,324 sf of space was vacant,
- b) 73,417 sf of space was leased for \$5.05 per sf,
- c) 42,278sf of space was leased for \$5.50 per sf, and
- d) 22,983 sf of space was leased for \$7.50 per sf,

[13] A chart of seven lease comparables between 50,000 and 100,000 sf all of which were in the SE quadrant of Calgary. All of the comparables were IWM properties with a median average year of construction of 1998, a median site coverage of 57%, a median leased area of 65,000 sf with a median lease rate of \$5.65 per sf.

[14] A chart of seven lease comparables of over 100,000 sf all of which were in the SE quadrant of Calgary. A median lease rate of \$5.50 per sf was derived.

[15] Using the Income Approach and applying the actual lease rates (the 38,324 vacant space had a lease rate of \$5.50 applied) of the subject property, a cap rate of 6.50%, the Complainant calculated the requested assessment for the subject property as indicated above. The requested assessments approximated a rate \$82 per sf.

Respondent's Position:

[16] The Respondent provided a 253 page disclosure document that was entered as "Exhibit R1" during the hearing. The Respondent also requested that all evidence and argument made on this issue in hearing file #72103 be brought forward to this hearing. The Respondent along with Exhibit R1 provided the following evidence and argument with respect to this issue:

[17] A duplicative chart of the Complainant's sales comparables highlighting the fact the one of the comparables was a multi-building property and another one was a portfolio sale; i.e., a property that was sold together with another property, at the same time, to the purchaser. A time-adjusted sales price (TASP) was included for each sale comparable and compared to the 2013 assessment of each sale comparable. The median assessment to sales ratio (ASR) achieved was 0.98 with a coefficient of dispersion (CoD) of 10.37%. The 0.98 ASR was offered by the Respondent to be a clear indication that the assessment model used by the Respondent worked well and therefore the DSCA was justified for assessing the subject property.

[18] A chart of eight industrial sales comparables, all of which were over 100,000 sf, including four of the six comparables (excluded the multi-building comparable and the portfolio sale comparable) from the Complainant. The sale dates of the comparables varied from August 18, 2009 to July 27, 2011. Five of the comparables were IWM buildings. Year of construction ranged from 1966 to 2008, with a median of 1987. Finish percentage varied from 3% to 39%, with a median of 12%. Site coverage varied from 37.95% to 60.07%, with a median of 42.90%. The assessable building area varied from 110,464 to 302,135 sf, with a median of 137,999 sf. A TASP was included for each sale comparable and compared to the 2013 assessment of each

sale comparable. The median ASR achieved was 0.98 with a CoD of 8%. The 0.98 ASR was again offered by the Respondent to be a clear indication that the assessment model used by the Respondent worked well and therefore the DSCA was justified for assessing the subject property.

[19] Third party cap rate studies that show that cap rates for Industrial "A" properties could be as low as 5.75%. The Respondent provided cap rate trending analysis that suggested the cap rate for the current assessment year should be approximately 6.25%.

[20] A chart of nineteen lease comparables that were between 50,000 and 100,000 sf. All of the comparables were in the SE quadrant of Calgary and included the seven comparables of the Complainant. The comparables were mostly IWM buildings with a few IWS buildings. The Respondent included additional comparable leases that were from properties that he felt were comparable to the subject and additional leases from the Complainant's comparable properties but were not included by the Complainant. A median lease rate of \$6.43 per sf was derived.

[21] A chart of ten lease comparables that were over 100,000 sf. All of the comparables were in the SE quadrant of Calgary and included the six comparables of the Complainant. The Respondent included additional comparable leases that were from properties that he felt were comparable to the subject and additional leases from the Complainant's comparable properties but were not included by the Complainant. A median lease rate of approximately \$5.75 per sf was derived.

[22] An ASR test of the Complainant's Income Approach (using a requested and actual lease rate of the subject, a 4% vacancy rate and a 6.50% cap rate) on the Respondent's eight industrial sales comparables that were over 100,000 sf. The results showed a median ASR of 1.00 with a CoD of 24.61%. The Respondent claimed that the ASR should be between 0.95 and 1.05, while the CoD should be below 20%, proving that the Complainant's Income Approach fails and should not be used in assessing the subject property.

[23] An ASR test of the Complainant's Income Approach (using a typical lease rates, a 4% vacancy rate and a 6.50% cap rate) on the Respondent's eight industrial sales comparables that were over 100,000 sf. The results showed a median ASR of 0.99 with a CoD of 24.61%. The Respondent claimed that the ASR should be between 0.95 and 1.05, while the CoD should be below 20%, proving that the Complainant's Income Approach fails and should not be used in assessing the subject property.

[24] An ASR test of the Complainant's Income Approach (using a requested and actual lease rate of the subject, a 4% vacancy rate and a 6.50% cap rate) on the Complainant's six industrial sales comparables. The results showed a median ASR of 0.66 with a CoD of 24.52%. The Respondent claimed that the ASR should be between 0.95 and 1.05, proving that the Complainant's Income Approach fails and should not be used in assessing the subject property.

[25] An ASR test of the Complainant's Income Approach (using a typical lease rates, a 4% vacancy rate and a 6.50% cap rate) on the Complainant's six industrial sales comparables. The results showed a median ASR of 0.66 with a CoD of 24.52%. The Respondent claimed that the ASR should be between 0.95 and 1.05, proving that the Complainant's Income Approach fails and should not be used in assessing the subject property.

Complainant's Rebuttal:

[26] The Complainant requested that all evidence and argument made on this issue in hearing file #72103 be brought forward to this hearing. Therefore, the 30 page rebuttal

document that was entered as "Exhibit C3" in hearing file #72103 shall be brought forward to this hearing. The Complainant along with Exhibit C3 from hearing file #72103 provided the following evidence and argument with respect to this issue:

[27] A copy of a July 2, 2013 disclosure document from the City of Calgary Assessment Office. The document was in defence of an industrial property assessment from hearing file 72085. The document included 2013 industrial lease comparables. The median lease rate for those eight comparables was \$5.73 per sf. The Complainant performed an Income Approach rework using a \$5.75 per sf lease rate and a 6.25% cap rate and found that the results supported the assessment value of that property at just over \$88.00 per sf.

CARB Findings:

The CARB finds the following with respect to this issue:

[28] That there are insufficient sales of similar properties to the subject(s) in the last three years that would allow for a reliable assessment that reflects market value using the DSCA methodology. The CARB accepts the third party (the Valuation Guide and the IAAO) literature provided by the Complainant, that in the absence of sufficient comparable sales the DSCA should not be used in assessing the subject.

[29] That the methodology used by the Complainant in deriving his cap rates are acceptable comparing both the lease rates of the respective comparable at the time of sale and typical lease rates applied to the various lease spaces of the respective comparable sales. The CARB in this instance, would place the most weight on the cap rate derived from typical lease rates on the most recent three sales comparables. The 2009 sales comparables are too dated to allow for any reliable calculation of a cap rate applicable to the 2013 assessment year.

[30] That the lease rate applied to the requested Income Approach assessment of the subject should be reflective of a typical lease rate for that space and not the actual lease rate.

[31] That the Respondent's ASR test of the Complainant's six industrial sales comparables is not convincing. The median of 0.98 is misleading because only three of the properties achieved ASR between 0.95 and 1.05. Although a CoD of 10.37% was achieved by the Respondent in his analysis, the range of ASR went from 0.76 to 1.13, which in the opinion of the CARB is too large of a variance to lend support to the Respondent's methodology.

[32] That the Respondent's ASR test of his eight industrial sales comparables, all of which were over 100,000 sf, is also not convincing. Again, the median of 0.98 is misleading because only four of those properties achieved ASR between 0.95 and 1.05. Moreover, the medians of building area, average year of construction, finish percentage and site coverage bore little resemblance to the subject property and yet achieved a median TASP of \$82.87 per sf that is actually supportive of the Complainant's requested assessment rate.

[33] That the Respondent's ASR tests of the Complainant's Income Approach, applied to both parties sales comparables is again not convincing. The Respondent's use of Complainant's actual or typical rents applied to sales comparables with leased spaces too dissimilar to the subject and experiencing dissimilar lease rates, would predictably result in CoD's that are above 20%.

ISSUE 2: The assessment per sf applied to the subject property is inequitable with the assessments of other similar and competing properties.

Complainant's Position:

[34] The Complainant along with Exhibit C1 provided the following evidence and argument with respect to this issue:

[35] A chart of two neighbouring equity comparables, one of which was next door to the subject and apparently owned by the same owner as the subject. Both equity comparables were IWM properties like the subject. Both equity comparables had a year of construction of 1995 like the subject. Both had site coverage of 59% with similar sized land areas. The net rental area of the buildings varied from 159,260 sf to 191,551 sf for adjacent property with office finish percentages of 5% and 6% for the adjacent property. The 2013 assessment per sf was \$88.47 and \$85.09 for the adjacent property.

Respondent's Position:

[36] The Respondent along with Exhibit R1 provided the following evidence and argument with respect to this issue:

[37] A chart of three additional equity comparables all of which were in the SE quadrant of the city of Calgary. Two of the three equity comparables added by the Respondent were IWS properties. The three additional equity comparables had a year of construction range of 1977 to 1978, with site coverage ranging from 40.09% to 62.19%. The net rental area of the three additional equity comparables' buildings varied from 154,568 sf to 190,160 sf with office finish percentages ranging from 3% to 5%. The 2013 assessment per sf range was \$40.09 to \$62.19.

CARB Findings:

[38] The CARB finds the following with respect to this issue:

[39] That the equity comparables of the Complainant more closely resemble the physical attributes of the subject property, especially when considering proximity, building type, land area and year of construction.

Board's Reasons for Decision:

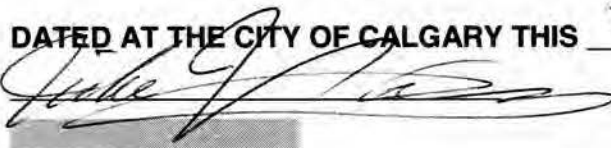
[40] The CARB is not so concerned about the methodology used to assess or approximate market value but the final result of that methodology. Having said that, the subject property is not owner occupied. Moreover the six industrial sales comparables of the Complainant are also "investment grade" properties. The CARB is of the opinion that in the absence of sales of similar properties, the use of the Income Approach to value would more accurately reflect the motivations of both the buyer and the seller in arriving at a market value for the subject.

[41] The Respondent's sales comparables were not similar enough to the subject property to allow for a DSCA that would accurately reflect an approximation of market value for the subject. The ASR tests applied by the Respondent to the various sales comparables of both parties supported this conclusion. Although the ASR medians were within acceptable ranges, half of the sales comparables were outside the acceptable range of 0.95 to 1.05.

[42] Therefore, the CARB accepts the Income Approach of the Complainant in approximating fair market value to the subject property. The CARB accepts the 6.50% median cap rate that was derived from the Complainant's three 2011 sales comparables using typical lease rates. However, the CARB accepts the median lease rate of \$5.75 derived from the Respondent's ten lease comparables that were over 100,000 sf, as more reflective of a typical market lease for the subject's leased space.

[43] The \$84.92 assessment per sf rate, based on the Income Approach, would result in an assessment rate that is more equitable with other similar and competing properties as presented by the Complainant.

DATED AT THE CITY OF CALGARY THIS 21 DAY OF August 2013.


Presiding Officer

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

NO.	ITEM
1) C1	Complainant Disclosure
2) C2	Complainant Disclosure
3) R1	Respondent Disclosure
4) C3	Complainant 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.*

(For MGB Office Only)

Column 1	Column 2	Column 3	Column 4	Column 5
CARB	Warehouse	Multi Tenant	Income Approach	