

**CITY OF CAMROSE
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-26.1, Section 460, Revised Statutes of Alberta (the Act).

between:

Krisdyl Developments Inc., COMPLAINANT
Represented by W. Thronson, Q.C.

and

The City of Camrose, RESPONDENT
Represented by Travis Lantz, AMAA

before:

J. Noonan, ***PRESIDING OFFICER***
J. Bibb, ***MEMBER***
D. Kotyk, ***MEMBER***

This is a complaint to the Camrose Composite Assessment Review Board in respect of a property assessment prepared by the Assessor of The City of Camrose and entered in the 2012 Assessment Roll as follows:

ROLL NUMBER:	767300
LOCATION ADDRESS:	4615 36 Street, City of Camrose
LEGAL DESCRIPTION:	Plan:0524335; Block 7; Lot15
ASSESSMENT:	\$1,206,180

This complaint was heard on the 25th day of October, 2012 at the City of Camrose Council Chambers located at 5204 50 Avenue, Camrose, Alberta.

Appeared on behalf of the Complainant:

Mr. Wayne Thronson
Mr. Norm Mayer
Mr. Shawn Brown

Appeared on behalf of the Respondent:

Mr. Travis Lantz

Preliminary Matters:

The Respondent advised the Board that the original assessment overstated the second floor area of the subject. A correction, from 4000 sq.ft. to 3688 sq.ft., indicated that the assessment should properly be \$1,169,480. The Respondent understood that this lower amount was viewed by the Complainant as still too high, but recommended to the Board that the assessment be reduced to that amount. The Complainant verified that the recommendation exceeded the Complainant's requested assessment of some \$900,000 and the hearing proceeded.

Property Description:

The subject property, built in 2006, is a two-storey office building located at 4615 36 Street, in the East Industrial Park, Camrose. The building has 4,000 sq.ft. of main floor area and 3,688 sq.ft. of second floor as well as 1000 sq.ft. of storage bay sited on a lot of 75,881 sq.ft. The 2012 assessment was prepared by the capitalized income approach.

Issues:

1. Are the lease rates employed in the income approach excessive?
2. Is the subject property assessed at greater than its market value as demonstrated by sales comparables?

Complainant's Position:

The Complainant presented rental information from three properties, two downtown office buildings and a 7 bay commercial building near the subject. The nearby commercial building (the Marshall building) rented 2066 sq.ft. bays for \$6.97 per sq.ft. with the tenants responsible for all occupancy costs other than snow removal and grass mowing. At least part of this building was used for office purposes: a veterinary clinic had office space and two of the bays were occupied by a chartered accountant. This

represented a clearly comparable property due to its proximity and use. The Mayer building was described as being just off Main Street and one of the nicest in the downtown area; it charged gross rents on a month-to-month basis. After operating costs, the second floor net rents were \$7.27 and \$6.48 per sq.ft. but also included small basement storage areas. Main floor net rents ranged from \$7.27 to \$10.51 per sq.ft. The third rental comparable, the downtown Fielding building, charged \$10 per sq.ft. triple net to the major tenant, again including a small basement storage area for which no rent was charged. The rental information from these properties demonstrated that the rents applied in the subject assessment were too high: \$14 per sq.ft. for main floor area, \$10 for the second floor, and \$6.50 per sq.ft. for the storage area.

Mr. Norm Mayer, with 49 years experience in the Camrose real estate market, addressed the subject's limitations. It was built for a single occupant and due to the open area design and lack of separate access to the second floor, it would be difficult to rent the second floor area to a different tenant. The subject was located in the industrial area and the majority of properties there were not office structures. Realistically, the subject should be measured against downtown properties, a fair comparison rather than west end and 48 Avenue properties. In Mr. Mayer's estimation the main floor area would rent in the range of \$7.50-\$8.50 per sq.ft. triple net, the second floor mezzanine for \$4.50-\$5.00, and the storage area for less than the kind of money envisioned in the assessment, \$6.50 per sq.ft., more likely \$2.50-\$3.00.

Mr. Shawn Brown, a principal of the Complainant, gave some history of the inspiration for and construction of the subject. His company had previously occupied some 2000 sq.ft. of leased space downtown, housing 17 employees. The subject had been constructed in 2006, with a 50 X 100 ft. footprint inspired by the Panhandle building also located in the east industrial area. The building had the capacity for 27 offices, though the company now only had 14 staff. Mr. Brown also noted the second floor mezzanine, open to the main floor, lacked separate access and would be a liability to a new tenant or at least not attract much rent. In contrast, one of the sales comparables a few hundred meters away at 4415 36 Street, the Dennis Fair building was divisible into three separate units.

The rental rates employed in the current assessment were extremely aggressive. Mr. Brown advanced three alternate income approach scenarios using different rent rates but the same allowances for vacancy, non-recoverables and reserves as per the assessment. The first alternative, perhaps aggressive on the low side, used a main floor rent rate of \$8.50, a mezzanine rate of \$4.50 and \$1 per sq.ft. of storage area; the net operating income capitalized at 7.75% produced a valuation of approximately \$585,500. The second scenario, the most realistic, used a \$10 rent rate for the main floor, greater than the Marshall building comparable but in line with some of the downtown rents presented. Using \$6 per sq.ft. for the mezzanine and \$2 for storage area, this calculation produced a value estimate of \$754,642. The third alternative employed higher rates than indicated in the market area, \$11 main floor, \$8 mezzanine and \$3.00 for storage, coming to a value of just over \$900,000. Mr. Brown thought this to be on the high side, but nonetheless was prepared to accept such an assessment.

In support of the request for a reduced assessment, information sheets on three sales comparables were presented. The Dennis Fair building sold for \$98.50 per sq.ft., the Schnell & Barrie building for \$113.34 per sq.ft. and the Big Eagle property for \$75 per sq.ft. of main floor area, \$65.22 per sq.ft. total area.

Respondent's Position:

The Respondent outlined the mass appraisal process, in particular the placement of properties into groups. The subject was in the commercial group, and office sub-group. Annual surveys were sent by mail to all rental properties, and every 2-3 years to owner-occupied properties to establish typical rental rates. Sales of commercial and industrial properties occurring between June 2008-June 2011 were analyzed to determine appropriate capitalization rates. Factors affecting value in the commercial and industrial groups were type of property, location, lot size, age, quality and condition of the improvements, and building area. Site coverage was a significant factor, but this was not acknowledged in the Complainant's presentation. An aerial photo of the subject showed the building occupied a small portion of the 1.74 acre lot, 6-7% or approximately 15% if the parking area was considered.

A document supplied to the City of Camrose in November 2006 detailed the construction costs of the building. The total amount was \$947,621. The land had been purchased in 2005 for \$111,000 so the total building and lost cost was some \$1,050,000 incurred in 2005-2006.

Photos of the subject showed a high level of exterior and interior finishes.

Detail sheets showed the calculation of the original and recommended assessments. Lease rates of \$14 per sq.ft. for the main floor area, \$10 per sq.ft. for the mezzanine and \$6.50 storage with allowances of 5% vacancy, 2% non-recoverables and 2% reserves for replacements, the net operating income capitalized at 7.75% yielded a per sq.ft. value estimate of \$134.

Eight newer office lease comparables were presented in chart form, but not identified by address in order to respect the confidentiality of survey information returned to the City. Most of the leases covered rentable areas less than 5000 sq.ft., with two leases in the 5000-10,000 sq.ft. range. Seven of the leases ranged from \$16 to \$22 per sq.ft. The eighth and newest lease at a rate of \$15 commenced in early 2012 at a property described as an office/warehouse in close proximity to the subject. The average of all the leases was \$18.36 per sq.ft., supporting the \$14 and \$10 rates applied to the subject. On a blended basis, the subject office lease rate attributed was approximately \$12 while the new office comparables were \$6 higher. It was explained that the subject had been afforded a negative location adjustment. Fifteen warehouse lease comparables from the industrial park and reasonably close to the subject showed a range of rents from \$6-\$12 per sq.ft. and an average of \$7.75. In comparison, the subject's storage area had been assessed at \$6.50 per sq.ft. lease rate.

Commenting on the Complainant's lease comparables, the Respondent observed that the rents at the Marshall building reflected rent for a shell warehouse space. The accounting firm had finished its space, and three of the bays were not finished to a high

degree, having 50-60% warehouse area. The subject was not a vacant shell. If the Marshall property were to be used as a comparable, a significant upward adjustment must be applied to the lease rates. The Mayer building was some 30 years older than the subject and would require an age adjustment. Its site coverage, including adjacent parking lot area, was 28%. The Fielding property did not have a history of filing request for information returns in the assessor's tenure with the City and rental information from this building had only become available in preparation for this hearing. It was noted that the Fielding property occupied a 12,000 sq.ft. lot versus the subject's 76,000 sq.ft.

Eight sales comparables were described, including five warehouse properties and two auto dealerships. The sales had an average site coverage of 29%, an average building area of 12,687 sq.ft. and an average sale price of \$142.41 per sq.ft. Two of the comparables, both warehouses, were described as being close to the subject but with low levels of finish. These comparables sold for \$127.11 and \$126.89 per sq.ft. and had little land area in comparison to the subject.

In conclusion, the Respondent requested the assessment be set at the recommended \$1,169,480.

Complainant's Rebuttal:

The Complainant submitted information advising that the rent charged to the bay occupied by the second tenant at the Fielding building was also \$10 per sq.ft. triple net, to allay any concern that the major tenant's rent rate was in any way preferential.

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

The Board found support for the lease rates attributed to the main floor and storage areas in the Respondent's comparables. The lease comparables presented by the Complainant were problematic in several regards. The Marshall building leases, according to the Respondent, were for unfinished space and this assertion rang true in that the Board would expect different rates for fully-finished space such as an accountant's office and other bays with much different development. The Mayer building is older by some 30 years and operates with month-to-month leases for long term tenants. This situation works for Mr. Mayer, but strikes the Board as somewhat atypical. The Fielding building, while closer in age to the subject, occupies a much smaller lot than the subject. The Board accepts the premise that an office rent rate also incorporates at least some of the value of the building's land.

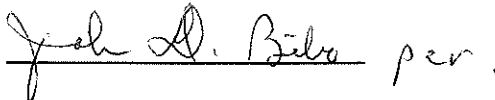
The Board had greater difficulty in considering the rent rate attributed to the second floor area of the subject at \$10 per sq.ft. The only clearly identified lease evidence of second floor rates came from the Mayer Building downtown and those net rates were \$6.48 and \$7.27 per sq.ft. Despite the atypical management style at that property, the Board was concerned that the \$10 rate, in the subject's location, might be an over-estimate of the property's income potential.

The Board resolved its difficulties by considering the sales comparables presented. By all accounts the subject is a well appointed and attractive office building. The Respondent identified two warehouse sales at 3610 and 3602 47 Avenue, both buildings a little smaller than the subject and having far less land area. The Board found these sales the most relevant to the subject both in building size and location. Although these sales were post facto the July 1, 2011 valuation date, their sale prices of close to \$127 per sq.ft. are about 10% lower than the average of all eight sales presented by the Respondent. The Board reasoned that a good condition office building was not over-assessed at \$134 per sq.ft. in comparison to nearby properties of an industrial nature selling at \$127 per sq.ft. The Board further notes that the subject property is almost 1.75 acres in size, affording the possibility of future development.

Board Decision:

The Board accepts the recommendation and sets the assessment at \$1,169,480.

DATED AT THE CITY OF CAMROSE THIS 13th DAY OF NOVEMBER 2012.

 per.

**John Noonan
Presiding Officer**

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.*