

**NOTICE OF DECISION      NO. 0098 129/12**

Altus Group  
780-10180 101 ST NW  
EDMONTON, AB T5J 3S4

The City of Edmonton  
Assessment and Taxation Branch  
600 Chancery Hall  
3 Sir Winston Churchill Square  
Edmonton AB T5J 2C3

This is a decision of the Composite Assessment Review Board (CARB) from a hearing held on July 3, 2012, respecting a complaint for:

| <b>Roll Number</b> | <b>Municipal Address</b> | <b>Legal Description</b>             | <b>Assessed Value</b> | <b>Assessment Type</b> | <b>Assessment Notice for:</b> |
|--------------------|--------------------------|--------------------------------------|-----------------------|------------------------|-------------------------------|
| 8956047            | 9217 27 Avenue NW        | Plan: 7620561<br>Block: 11<br>Lot: 2 | \$4,175,500           | Annual New             | 2012                          |

*This decision may be appealed to the Court of Queen's Bench on a question of law or jurisdiction, pursuant to Section 470(1) of the Municipal Government Act, RSA 2000, c M-26.*

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cc: YORK REALTY INC

## **Edmonton Composite Assessment Review Board**

**Citation: Altus Group v The City of Edmonton, 2012 ECARB 1039**

**Assessment Roll Number:** 8956047

**Municipal Address:** 9217 27 Avenue NW

**Assessment Year:** 2012

**Assessment Type:** Annual New

Between:

**Altus Group**

Complainant

and

**The City of Edmonton, Assessment and Taxation Branch**

Respondent

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### **DECISION OF**

**John Noonan, Presiding Officer**

**Dale Doan, Board Member**

**Petra Hagemann, Board Member**

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### **Background**

[1] The subject property is comprised of two industrial warehouse buildings, one 10,000 sq.ft. building that is strictly warehouse, and a 15,500 sq.ft. building that includes 1200 sq.ft. of main floor office. Both buildings were built in 1998 and in total they cover 28% of an 89,771 sq.ft. lot in the Parsons Industrial neighbourhood. The 2012 assessment was prepared by the direct sales comparison approach. There is a third building, another warehouse structure, on the adjoining property which carries its own roll number: 08956153. The adjoining property is owned by the same landowner and leased to the same tenant as this subject property, and its assessment appeal was heard by the same panel.

### **Issues**

[2] The over-arching issue in this complaint was the assessment treatment of properties having more than one building. The model used for mass assessment by the Respondent values each building separately, as if it were a stand-alone structure on its own title, by comparing it to other properties of similar size, age and other attributes. The aggregate value of all the buildings on the roll is the final assessed amount. The Complainant argues this method overstates the value of properties with multiple buildings. The parties gave extensive evidence and argument on the over-arching issue for roll number 8956047, here the subject property, and asked the Board to carry forward their comments as applicable to other assessments heard by the same panel later in the week with multiple buildings on the same roll. The affected rolls were: 8953754, 9966518, 1075506, and 8954588.

[3] The complaint form listed sixteen reasons for complaint. At the hearing, the Board heard evidence and argument on the following:

1. Is the subject over-assessed in view of its appraised value of \$3,046,500?
2. Is the subject over-assessed in view of an income approach which indicates a value of \$3,377,500?
3. Is the subject over-assessed in view of each building being assessed separately?
4. Is the subject fairly assessed in view of comparable sales that indicate a market value of \$3,315,000?
5. Is the subject equitably assessed in view of assessment comparables suggesting a value of \$3,570,000?

[4] The Complainant submitted that all of the values derived above were properly before the Board for consideration. It was noted that these values seemed to converge at approximately \$3,350,000 but it was left to the Board's discretion to decide a final value more appropriate than the original assessment of \$4,175,500.

### **Legislation**

[5] The *Municipal Government Act*, RSA 2000, c M-26 reads:

s 467(1) An assessment review board may, with respect to any matter referred to in section 460(5), make a change to an assessment roll or tax roll or decide that no change is required.

s 467(3) An assessment review board 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.

### **Parties' Positions**

#### **1. Is the subject over-assessed in view of its appraised value of \$3,046,500?**

[6] The Complainant submitted a portion of an appraisal report prepared by Altus Group Limited that concluded a January 1, 2010 market value of \$5.1 million for the subject 2-building property (9217 27 Ave) and the neighbouring building at 9305 27 Ave (roll # 8956153). The appraisal had not identified a value for each roll number, so the Complainant had apportioned the \$5.1 million total on the basis of proportionate square footage of improvement. Consequently, the subject accounted for \$3,092,747 of the \$5.1 million. Employing the City's time adjustment factor to establish a July 1, 2011 value, the January 2010 appraisal was reduced to \$3,046,665.

Similar appraisal evidence was introduced at the complaint hearing dealing with 8956153. As well, an income pro forma was advanced as in Issue 2 here, but used a lower rent rate in recognition of an older structure. When this information surfaced at that hearing, the Complainant advised that the apportionment of appraised value between the two roll numbers should be revised somewhat higher for the subject 2-building property, in recognition of the newer construction. When canvassed, neither party expressed concern about the Board “carrying back” this information for consideration with this file.

[7] The Respondent noted a few discrepancies between City information and that used in the appraisal report regarding some of the sales comparables referenced. For instance, it was noted that the building area of the comparable at 11610 178 Street included a covered drive-through loading area that should not have been included in the property’s area. The inclusion of this space distorted the value per sq.ft. of this comparable, and by extension the report’s conclusion. However, greater attention was focused on several comments contained in the report, such as, “This report is not a stand alone report, and must be read in conjunction with the accompanying cover letter and related appendices.” The cover letter was not included and only Appendix A was attached. Similarly, the market value conclusion was “subject to the Assumptions and Limiting Conditions”, and these assumptions and conditions were not disclosed. As the appraisal was missing essential elements, the Respondent urged the Board to give it little, if any weight.

**2. Is the subject over-assessed in view of an income approach which indicates a value of \$3,377,500?**

[8] The Complainant tested the assessment by preparing an income approach proforma for the subject property. A lease rate of \$10 per sq.ft. was attributed to the subject’s 25,500 sq.ft. of leasable area and income deductions of 3% for vacancy and 1% structural were applied. The resulting net operating income was capitalized at 7.25% to generate a value estimate of \$3,377,500. Nine industrial leases were listed from the SE quadrant for bay sizes ranging from 2080 sq.ft. to 8200 sq.ft. The leases ranged from \$6 to \$12.50 per sq.ft. with an average of \$9.43 and median \$10. The \$10 rate had been applied in the income proforma. The Complainant noted that the amount of office finish in the leased premises seemed to have little impact on the lease rate, and as well, the leases were drawn from a mixture of single and multi-building developments, again with no apparent influence on lease rates. Further support for the income proforma parameters was presented in third party reports for Q2 2011 from Colliers, CBRE, and Avison Young. These showed the \$10 lease rate was fair, as were the vacancy and capitalization rates. The income approach determined a value for the subject of \$132.45 per sq.ft. as compared to the \$163.75 per sq.ft. assessment.

[9] The Complainant noted that the City’s law and legislation brief referred to the valuation methods available for mass appraisal: the cost approach, direct sales comparison, and the income approach. In support of the choice of the direct sales comparison approach, the City materials quote from the 2002 edition of the *Standard on Mass Appraisal of Real Property* published by the International Association of Assessing Officers (IAAO). However, the Complainant pointed out that this text had been revised and the new 2012 edition stated “The income approach is the most appropriate method to apply when valuing commercial and industrial property if sufficient income data are available.” The Complainant took the position that ample income data are available for valuation purposes but the City chose not to collect this information, preferring the

sales comparison approach which the new text from IAAO now ranks as the least preferable of the three approaches.

[10] The Respondent asked the Board to place no weight on the income approach test of the Complainant for lack of sufficient detailed information. In the City's view, the vacancy, structural allowance and cap rate employed were just market averages, and the lease information presented couldn't be verified by the City as to accuracy and completeness. The City had foregone the annual Request for Information process for the industrial inventory for the last few years as a good many industrial properties were owner-occupied. Consequently, there was no leasing information to be had from a large swath of the industrial sector. This information void was one of the reasons the City had decided to use the direct sales comparison approach for the industrial inventory.

[11] With regard to the new text from the IAAO publication, the Respondent noted that the sentence following the one quoted by the Complainant reads "Direct sales comparison models can be equally effective in large jurisdictions with sufficient sales."

### **3. Is the subject over-assessed in view of each building being assessed separately?**

[12] The Complainant submits that the Assessor's method of valuing a property that contains more than one building tends to overstate value. This method values each building separately, as if it were on its own title. For a property that contained both a 10,000 and a 15,000 sq.ft. building, the Assessor would compare each to other properties with similar attributes and then add the two values to arrive at the assessed value. In the Complainant's view, such a property is better compared to other properties with a 25,000 sq.ft. single development. A typical renter who wants a 5,000 sq.ft. bay is not concerned whether a property has more than one building and would not pay a higher rent for a typical bay. A typical investor would not pay more for a property just because it had two or more buildings. Rather, a property would sell as one parcel, not the sum of two or more individual buildings, each on its own title. The Complainant presented a series of sales of multiple-building properties, and compared each to sales of other similar sized properties, usually with a single building, sometimes more. The Complainant made the point that these comparisons showed that in the marketplace multiple building properties sold for no higher than single building properties of similar size.

[13] The Respondent defended the method of assessing multiple building properties, observing that the cost of construction for such a property would be higher, could lead to greater diversity of leasing options for a landlord, among other benefits. The Respondent reproduced nine of the ten sales comparison charts submitted by the Complainant and added a column of comments or observations about the comparables presented. These comments focused on corrections, differences in size, site coverage, measurement discrepancies, non-arm's-length sales, or other considerations that distinguished the comparables from the multiple-building sale highlighted. Further, the Respondent added a row to each chart showing another multiple-building sale that reinforced the proposition that these multi-building sites indeed sold at higher per square foot values. The Respondent submitted that the Complainant's analysis or lack of analysis of the multi versus single property sales simply did not meet the onus required to show the alleged error in the City's ways. The Respondent was satisfied that a whole new analysis from the City was not warranted on the basis of the evidence presented by the Complainant on the single building vs. multiple buildings assessment method.

**4. Is the subject fairly assessed in view of comparable sales that indicate a market value of \$3,315,000?**

[14] The Complainant presented six sales deemed comparable to the subject at hand, all southside warehouses of similar age and size located on interior lots. The comparables ranged from 13,000 to 42,500 sq.ft. with typical to slightly lower than typical site coverage, and sold within a range of \$124-\$146 per sq.ft. with one low exception. The sales produced average and median prices of \$131 and \$133.55 per sq.ft. The Complainant selected a value of \$130 per sq.ft. as an appropriate value for the subject, as compared to the assessment of \$163.75 per sq.ft. and advocated a reduction in the assessment to a value of \$3,315,000.

[15] The Respondent presented eight sales comparables to show values of smaller warehouses with lower than typical site coverage. Seven of the eight had building sizes ranging from 7,000-12,500 sq.ft., with site coverage of 17-28%. Two other sales with building areas of 13,744 and 40,427 sq.ft. were listed to show comparability to the overall subject site. Time-adjusted per sq.ft. values ranged from \$156-\$217, supportive of the subject assessment of \$163.75 per sq.ft.

**5. Is the subject equitably assessed in view of assessment comparables suggesting a value of \$3,570,000?**

[16] The Complainant presented four equity comparables located on interior lots in the southeast industrial area. The comparables were all single buildings in the 23,000-30,000 sq.ft. range, similar to the subject's total area of 25,500 sq.ft. divided between two separate buildings. The comparables were assessed at rates ranging from \$138 to \$147 per sq.ft., with median and average rates of \$140 and \$141 per sq.ft. A value of \$140 per sq.ft. was deemed equitable for the subject, suggesting an assessment of \$3,570,000.

[17] The Respondent presented five equity comparables, all properties with two buildings on site with total building area in the 16,000-22,000 sq.ft. range, and site coverages ranging from 20%-38%. Assessments per sq.ft. of four of these comparables were in the \$160-\$190 range and the fifth carried a valuation of \$213 per sq.ft.

**Decision**

[18] The Board reduces the assessment to \$3,600,000.

**Reasons For The Decision**

**1. Is the subject over-assessed in view of its appraised value of \$3,046,500?**

[19] The Board finds that the appraisal report could, at best, be a general guide to a value estimate. The problem of value apportionment between the two component properties was an obvious difficulty. More problematic was the missing documentation: assumptions and limiting conditions. While the Board might speculate that these assumptions and limiting conditions are standard boilerplate that might attach to every appraisal, there is no certainty that is the case here.

The Board would find itself on shaky ground reaching a complaint decision on the basis of an incomplete appraisal report.

**2. Is the subject over-assessed in view of an income approach which indicates a value of \$3,377,500?**

[20] With regard to the valuation methods and their preferred ranking by the IAAO, the Board takes the view that this tempest should remain in a teapot reserved solely for the opposing parties. Neither the *Act* nor the *Regulation* specifies the valuation method to be used in preparing an assessment, implicitly leaving that decision in the hands of the Assessor. There is no issue to be decided. The Board is interested in seeing that a complained assessment is a fair and equitable estimate of market value, no matter how that estimate was derived.

[21] While the assessment was prepared by the direct sales comparison method, testing that assessment by another valuation method is fair game. The income approach parameters used by the Complainant appear reasonable enough at first glance. The Board understands the Complainant is trying to show how the property would be valued using typical market inputs for lease rates, vacancy and cap rate. The difficulty with the income proforma calculated by the Complainant is the implication that all similar industrial properties in the SE quadrant should be valued with these exact same income approach parameters, but without the benefit of testing the results against real world sales. In short, what is proposed is a different model which might appear reasonable, or even very reasonable, but bereft of audited validation. While one might not quibble with a vacancy rate of 3% when various third party industry watchers report rates of 2.2%, 3.2% and 2.9%, the greater difficulty is an appropriate cap rate. Here, the Complainant chose to apply 7.25% and supported that with, among other information, a Q2 2011 Colliers report showing an Edmonton range of 6.75%-7.75% for multi-tenant 'B' properties and 6.5%-7.5% for single-tenant 'A' properties. The Complainant advised that the subject property could be considered as either a single-tenant or multi-tenant operation given its layout. The Board concurs, but then sees an expanded range of cap rates from a low of 6.5% to a high of 7.75%. The Board observes that a cap rate change of as little as ¼% can have a big impact on the calculated value. Further complicating matters is the recurring question of how was a cap rate derived – was it determined using the actual incomes of properties that sold, or estimates of typical income?

[22] The Board finds that the pro forma capitalized income valuation presented by the Complainant can only be used as a rough guide to estimated value. By itself, that value estimate is insufficient to convince the Board that the subject property is over-assessed and that a reduction is warranted.

**3. Is the subject over-assessed in view of each building being assessed separately?**

[23] The Board finds merit in the argument of both parties. Particularly, the Board accepts the idea that the cost of construction of a multiple building development would likely exceed that of a single larger building. The Board is also inclined to agree that the renter of a single small warehouse bay would not likely pay higher rent because he had only three neighbours as opposed to ten in the immediate building.

[24] The Board cannot say that at all times, or even this time, that an assessment is incorrect because the City views value as the sum of several lumps. Neither can the Board say that any or all complaints are wrong because they see value as a lump sum. The Board must make each complaint decision on the basis of the evidence presented. The Board is not convinced that every multiple-building property must be exclusively viewed one way or another. To repeat, the Board is interested in seeing that a complained assessment is a fair and equitable estimate of market value, no matter how that estimate was derived.

**4. Is the subject fairly assessed in view of comparable sales that indicate a market value of \$3,315,000?**

[25] Only one of the City's sales had a 28% site coverage like the subject. The others presented by the Respondent ranged from 17%-25%. Most of the Respondent's sales were of smaller size than the subject, less than 12,500 sq.ft.; closest in size to the subject was a 27,800 sq.ft. building but it was quite new, built in 2007, and located in the far west end. It was also sited on a 132,000 sq.ft. lot, almost an acre larger than the subject.

[26] The Complainant presented two sales the Board found to be most comparable to the subject: the first was almost identical in lot size at 89,774 sq.ft. with 24,489 sq.ft. of main floor development and a further 4200 sq.ft. of upper office, 27% site coverage, and built in 1992; the second had a 23,958 sq.ft. building on a lot of 70,614 sq.ft. for site coverage of 34%. On a per sq.ft. basis, the first property sold for a time-adjusted price of \$124.36 and the second for \$146.07. The total time-adjusted prices were \$3,567,600 and \$3,499,500 respectively.

**5. Is the subject equitably assessed in view of assessment comparables suggesting a value of \$3,570,000?**

[27] The Board found the most comparable properties to be a 25,660 sq.ft. building on a 92,060 sq.ft. lot assessed at \$3.77 million and a 21,911 sq.ft. two-building development with 21,011 sq.ft. of main floor area on lot calculated to be 87,546 sq.ft. and assessed at \$3.78 million. The first property was presented by the Complainant and the second by the Respondent. The second property was about 4500 sq.ft. smaller than the first, both in lot size and main floor area, but carried a higher assessment, illustrating the greater value the assessment model puts on multiple-building developments.

**6. Conclusion**

[28] The sales evidence from the Complainant, especially the two sales at \$3,567,600 and \$3,499,500, convinced the Board that the subject property would likely sell in the marketplace at a similar price, and so the Board determined that an assessment of \$3.6 million is fair. This value is also close to the \$3.77-\$3.78 million range demonstrated by the two best equity comparables. The two very comparable sales were single building developments, but the Board was not convinced the subject's two buildings would command an appreciable premium when compared to those properties.



Heard July 3, 2012.

Dated this 10<sup>th</sup> day of August, 2012, at the City of Edmonton, Alberta.

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John Noonan, Presiding Officer

**Appearances:**

Walid Melhem, Altus Group  
for the Complainant

Joel Schmaus  
Will Osborne  
for the Respondent