

**NOTICE OF DECISION      NO. 0098 130/12**

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>
8956153	9305 27 Avenue NW	Plan: 7823307 Block: 11 Lot: 17	\$2,106,000	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 1045**

**Assessment Roll Number:** 8956153

**Municipal Address:** 9305 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 a 16,550 sq.ft. warehouse, including 300 sq.ft. of finished mezzanine, covering 32% of a 51,452 sq.ft. lot in the Parsons Industrial neighbourhood of southeast Edmonton. The building was constructed in 1981, and neighbours two other newer buildings on roll 8956047, occupied by the same tenant and owned by the same landlord. This complaint shares some of the same evidence and argument as was presented at the hearing for the neighbouring roll, heard by the same panel.

### **Issue(s)**

[2] The complaint form listed sixteen reasons for complaint; the Board heard evidence and argument on the following:

1. Is the subject over-assessed in view of its appraised value of \$1,977,000?
2. Is the subject over-assessed in view of an income approach which indicates a value of \$1,723,000?
3. Is the subject fairly assessed in view of comparable sales that indicate a market value of \$1,655,000?

## **Legislation**

[3] 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.

## **Positions of the Parties**

### **1. Is the subject over-assessed in view of its appraised value of \$1,977,000?**

[4] 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 neighbouring 2-building property (9217 27 Ave., roll 8956047) and the subject 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 \$1,977,345 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 \$1,977,000. Similar appraisal evidence was introduced at the complaint hearing dealing with 8956047. As well, an income proforma was advanced in Issue 2 here, but used a lower rent rate in recognition of an older structure than was used in the two-building complaint hearing. When this information surfaced at the hearing, the Complainant advised that the apportionment of appraised value between the two roll numbers should be revised somewhat higher for the neighbouring 2-building property, in recognition of the newer construction and lower for this subject property than the identified amount of \$1,977,000.

[5] The Respondent noted a few discrepancies between their evidence and the sales comparables used in the appraisal report. 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 \$1,723,000?**

[6] The Complainant tested the assessment by preparing an income approach proforma for the subject property. A lease rate of \$8 per sq.ft. was attributed to the subject's 16,250 sq.ft. of main floor and \$4.75 per sq.ft. of mezzanine leasable area, and income deductions of 3% for vacancy and 2% structural were applied. The resulting net operating income was capitalized at 7.25% to generate a value estimate of \$1,723,000. Nineteen industrial leases were listed from the SE quadrant for bay sizes ranging from 1025 sq.ft. to 8047 sq.ft. in 1977-1980 vintage buildings. The leases ranged from \$7 to \$9 per sq.ft. with an average of \$7.90 and median of \$7.75. A rate of \$8 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 supported the \$8 lease rate, the vacancy and capitalization rates. This income approach resulted in a value for the subject of \$1,723,000.

[7] 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 third best valuation method out of the three approaches.

[8] 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.

[9] 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 fairly assessed in view of comparable sales that indicate a market value of \$3,315,000?**

[10] The Complainant presented five sales deemed comparable to the subject at hand, all southside warehouses of similar age and size located on interior lots. The comparables ranged from 12,700 to 23,900 sq.ft., most with higher than typical site coverage, and sold within a range

of \$73-\$129 per sq.ft. The sales produced average and median prices of \$100.87 and \$97.70 per sq.ft. The Complainant selected a value of \$100 per sq.ft. as an appropriate value for the subject, as compared to the assessment of \$127.25 per sq.ft. and advocated a reduction in the assessment to a value of \$1,655,000.

[11] The Respondent presented eight sales comparables to show values of smaller warehouses with average or higher than typical site coverage. The comparables had building sizes ranging from 8,000- 25,000 sq.ft., with site coverages of 29-44%. Time-adjusted per sq.ft. values ranged from \$122-\$158, supportive of the subject assessment of \$127.25 per sq.ft. The Respondent noted errors in the gross building area of comparables #1 and #2 presented by the Complainant, and argued that comparable #4 was a non-arm's length sale.

[12] The Board found the best evidence in sales comparables #3, 6, and 8 submitted by the Respondent. These comparables had a building area of 14,483 sq.ft. with 33% coverage, a building area of 17,802 sq.ft. with coverage of 36%, and a building area of 15,089 sq.ft. and coverage of 37%. These sales bracket the subject in terms of size, and an average of the three time-adjusted sales prices yields \$127.04 per sq.ft. Some of the Complainant's sales required corrections to size, or were seen to be less comparable to the subject for reason of site coverage. One sale in particular was troubling: with the largest lot and by far the lowest site coverage, it managed to sell at by far the lowest price, \$73.88 per sq.ft.

### **Decision**

[13] The Board confirms the assessment of \$2,106,000.

### **Reasons for the Decision**

[14] The Board found 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.

[15] 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.

[16] 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?

[17] The Board finds that the proforma 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.

[18] The most comparable sales, three in number, produced an average per sq.ft. value of \$127.04 which is within pennies of the subject's assessed value of \$127.25 per sq.ft.

Heard July 5, 2012.

Dated this 10th day of August, 2012, at the City of Edmonton, Alberta.

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John Noonan, Presiding Officer

**Appearances:**

Altus Group  
for the Complainant

Will Osborne  
for the Respondent