

NOTICE OF DECISION NO. 0098 140/12

Altus Group
780-10180 101 Street 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 17, 2012, respecting a complaint for:

Roll Number	Municipal Address	Legal Description	Assessed Value	Assessment Type	Assessment Notice for:
4149266	11610 178 Street NW	Plan: 9021777 Block: 4 Lot: 11	\$3,366,000	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.

cc: KOOTENAY HOLDINGS LTD

Edmonton Composite Assessment Review Board

Citation: Altus Group v The City of Edmonton, 2012 ECARB 927

Assessment Roll Number: 4149266

Municipal Address: 11610 178 Street NW

Assessment Year: 2012

Assessment Type: Annual New

Between:

Altus Group

Complainant

and

The City of Edmonton, Assessment and Taxation Branch

Respondent

DECISION OF
John Noonan, Presiding Officer
Jack Jones, Board Member
Pam Gill, Board Member

Background

[1] The subject property is a 26,045 square foot medium warehouse built in 1997 in the Edmiston Industrial subdivision in the City of Edmonton. The subject has 26% site coverage of a 100,969 sq.ft. lot. It is not located on a major roadway. The 2012 assessment was prepared by the direct sales comparison approach utilizing sales occurring from January 2008 through June 2011.

Issues

[2] The complaint form listed nine reasons for complaint. At the hearing, the Board heard evidence and argument on the following three issues:

1. Is the subject over-assessed in view of a capitalized income proforma that indicates a value of \$2,993,000?
2. Is the subject over-assessed in comparison to sale comparables which suggest a value of \$3,060,000?
3. Should the assessment reflect the fact that the subject sold in June 2009 for \$2,375,000 time adjusted to \$2,290,925?

Legislation

[3] The *Municipal Government Act* reads:

Municipal Government Act, RSA 2000, c M-26

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.

Position Of The Complainant

[4] The Complainant presented evidence (C-1 and C-2) and argument for the Board's review and consideration.

[5] The Complainant argued that the subject is over-assessed based on the income approach and the sales comparison approach.

[6] The Complainant tested the assessment by preparing an income approach proforma (C-1, page 8) for the subject property. A lease rate of \$7.75 per sq.ft. was attributed to the subject's 26,045 sq.ft. of main floor area and income deductions of 3% for vacancy and 2% for structural were applied. An excess land adjustment was also made in the amount of \$319,634. The resulting net operating income was capitalized at 7.25% to generate a value estimate of \$2,673,591. To this was added an excess land adjustment of \$319, 634. The final value from the income proforma was \$2,993,000 as compared to the assessment of \$3,366,000.

[7] Nine industrial leases in the White Industrial area (C-1, pages 17-18) were listed for comparison. The leases ranged from \$7.00 to \$8.50 per sq.ft. with an average of \$7.81 per sq.ft. and a median of \$7.75 per sq.ft. A rate of \$7.75 had been applied in the income proforma.

[8] 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 \$7.75 lease rate was fair, as were the vacancy and capitalization rates. The income approach determined a value for the subject of \$114.92 per sq.ft. as compared to assessed value of \$129.24 per sq.ft.

[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 states, “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.

[10] The Complainant provided the Board with three sales comparables (C-1, page 10) which ranged from \$87.96 per sq.ft to \$117.59 per sq.ft. The Complainant proposed that \$117.50 per sq.ft would result in a fair assessment at \$3,060,000.

[11] The subject (C-1, page 10, #3) was sold for \$2,375,000 time adjusted to \$2,290,925 on June 2, 2009. The Complainant argued that the sale of the property itself was the best indicator of value.

[12] In addition, the Complainant presented rebuttal evidence (C-2, page 2) which critiqued the Respondent’s sales comparables with respect to age, size, and quality. It was noted that the Respondent and the Complainant had one sale in common (R-1, page 17, #3 and C-1, page 10, #1).

[13] The Complainant submitted that all three values generated by the income approach, sales approach and the sale itself were equally before the Board for consideration. However, the request was the lesser of the three values.

[14] In summary, the Complainant requested the 2012 assessment of the subject property be reduced to a rounded \$2,290,500.

Position Of The Respondent

[15] The Respondent presented evidence (R-1 and R-2) and argument for the Board’s review and consideration.

[16] The Respondent asked the Board to place no weight on the Complainant’s income approach test 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.

[17] 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”.

[18] The Respondent provided six sale comparables (R-1, page 17) that ranged from \$117.43 per sq.ft to \$159.55 per sq.ft. The subject is assessed at \$129.24 per sq.ft, well within the range supported by the sales.

[19] The Respondent addressed the Complainant's sales (R-1, pages 25-27); it was argued that sale #2 included a canopied area that affected the price. Sale #3 was the sale of the subject itself and the City's sales validation process had determined that "the vendor was highly motivated and sold for less than market value".

[20] In summary, the Respondent requested the 2012 assessment of the subject property be confirmed at \$3,366,000.

Decision

[21] The Board reduces the assessment to \$3,060,000.

Reasons For The Decision

[22] With regard to the valuation methods and their preferred ranking by the IAAO, the Board takes no position. 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.

[23] 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 NW 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 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 a cap rate was derived – was it determined using the actual incomes of properties that sold, or estimates of typical income?

[24] 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.

[25] The Board examined the sale of the subject itself and concluded that while the sale of the subject can be the best indicator of value, in this particular case, the price achieved seemed out of line to the low side. The Complainant's other two sales were clustered about \$117.50 per sq.ft.

and the subject had sold for \$87.96 per sq.ft. This divergence gave credibility to the respondent's sales validation conclusion that the subject sale occurred at less than market value.

[26] The Board found, in general, that the Complainant's sales indicated the subject was assessed at higher than its value. The Board then examined the Respondent's sales and found that five out of the six sales were not fair comparables to the subject, especially in terms of size, and sometimes, location. The Board found that the one sale in common to the parties supported the request of the Complainant to value the subject at \$117.50 per sq.ft. Usually the Board prefers to rely on more than one sale. Here, that one comparable sale was the best evidence before the Board to show value of the subject: it was reasonably close to the subject in terms of size, site coverage, and age.

[27] The Board applied a revised unit value of \$117.50 to the subject building area of 26,045 square feet to arrive at a fair 2012 assessed value of \$3,060,000.

Heard commencing July 17, 2012.

Dated this 16th day of August, 2012, at the City of Edmonton, Alberta.

John Noonan, Presiding Officer

Appearances:

Walid Melhem, Altus Group
for the Complainant

Suzanne Magdiak, City of Edmonton
for the Respondent