

NOTICE OF DECISION NO. 0098 52/12

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 June 27, 2012, respecting a complaint for:

Roll Number	Municipal Address	Legal Description	Assessed Value	Assessment Type	Assessment Notice for:
8889818	7028 50 STREET NW	Plan: 8022112 Block: 25 Lot: 1	\$1,816,500	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.

cc: INTEGRATED PROTECTIVE COATINGS INC

Edmonton Composite Assessment Review Board

Citation: Altus Group v The City of Edmonton, 2012 ECARB 1140

Assessment Roll Number: 8889818

Municipal Address: 7028 50 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

Robert Mowbrey, Presiding Officer

Jasbeer Singh, Board Member

Mary Sheldon, Board Member

Preliminary Matters

[1] Upon questioning by the Presiding Officer, the parties indicated they had no objection to the composition of the Board. In addition, the Board members stated they had no bias on this file.

[2] Witnesses giving testimony were either sworn in or affirmed, the choice being that of the individual witness.

[3] Evidence, argument and submissions were carried forward to this file from #9988077 as far as applicable.

Background

[4] The subject property is a medium warehouse located in the Davies Industrial East subdivision of the City of Edmonton. It was built in 1976 on a lot measuring 43,877 square feet. The subject consists of one main building with a total main floor area of 10,830 square feet and 732 square feet of finished mezzanine space for a total of 11,562 square feet. The subject has three greenhouses totaling 6,022 square feet of space, assessed at cost. The 2012 assessment of the subject is \$1,816,500.

Issue

[5] Is the 2012 assessment of \$1,816,500 fair, equitable and consistent with market values on the valuation date?

Legislation

[6] 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

[7] The Complainant filed this complaint on the basis that the subject property assessment of \$1,816,500 was inequitable and in excess of market value. In support of this position, the Complainant presented a 215 page assessment brief (Exhibit C-1) and a 21 page document rebutting the Respondent's evidence to the Board (Exhibit C-2).

[8] The Complainant offered the following evidence and arguments in support of this complaint.

- a. The income approach indicates a value of \$1,483,000 (Exhibit C-1, pages 7 & 8).
- b. Relying on a set of four equity comparables, the valuation should be \$120 per square foot for 11,562 leasable building area and \$20 per square foot for 6,022 square feet of greenhouse space, for a total of \$1,507,500 (Exhibit C-1, pages 9 & 10).

[9] The Complainant alleged that the subject was assessed excessively by the Respondent, ignoring very significant factors.

- a. The table of equity comparables showed that for warehouse properties that were comparable in size, age, lot size and site coverage, the average and median assessments were \$126.66 and \$127.98 per square foot, respectively, where as the subject had been assessed excessively at \$157.11 per square foot (Exhibit C-1, page 9).
- b. All four equity comparables were located on major traffic arteries, same as the subject.
- c. Table of lease rates (Exhibit C-1, pages 14 & 15) indicated that the market lease rate for the subject property with typical site coverage would be \$9.50 per square foot. The Complainant advised the Board that the number of buildings on site or percentage of office space had no effect on the rates achieved on warehouse space.

- d. In response to a question from the Respondent, the Complainant stated that the lease rate of \$9.50 per square foot had been picked as a generally indicated market lease rate.
- e. In support of the capitalization rate (7.25%) and the vacancy rate (3%) used for the analysis and valuation, the Complainant provided independent third-party published market information (Exhibit C-1, pages 16-35).
- f. Applying a rental rate of \$9.50 per square foot and a capitalization rate of 7.25%, the subject building's market valuation was \$1,483,000 (Exhibit C-1, page 8).

[10] The Complainant advised the Board that a substantial number (approximately 60%) of warehouse properties sold in Edmonton during 2011 were owner occupied. A listing of warehouse sales in Southside Edmonton showed that only 12% of such sales were in respect of multiple-building properties (Exhibit C-1, page 53).

[11] The Complainant provided scatter diagrams of warehouse sales in Southside and Northwest Edmonton to demonstrate that the multi-building warehouse properties did not command any higher unit price than the single building properties did (Exhibit C-1, pages 52-55).

[12] Citing several multi-building warehouse sales and corresponding sales comparables, the Complainant further stressed his assertion that the multi-building warehouse properties did not warrant any higher unit prices for sales or assessment (Exhibit C-1 pages 56-215).

[13] The Complainant questioned the validity of the Respondent's equity comparables (R-1, page 16) with only 23% (average) site coverage versus 38% for the subject.

[14] The Complainant objected vehemently to the Respondent adding its own sales comparables to the Complainant's sales analysis tables aimed at illustrating the point that multi-building warehouse properties were not valued any higher than single building properties in the market place. The sale illustration (8103 Roper Road) included with the Complainant's analysis (R-1, page 34) was, in the Complainant's opinion, totally out of place as this was a multi-tenant, multi-use property with substantial office space and not comparable with warehouse properties.

[15] The Complainant presented a table of equity comparables showing warehouse properties that were comparable in size, age, lot-size and site coverage, with average and median assessments of \$126.66 and \$127.98 per square foot, respectively. The subject, on the other hand, had been assessed excessively at \$157.11 per square foot (Exhibit C-1, page 9).

[16] The Complainant pointed out that the Respondent's equity comparable #6 (8542 42 Street) had totally finished office space and was not comparable with the subject as an industrial warehouse.

[17] During cross-examination by the Respondent, the Complainant informed the Board that the size of the building (18,482 square feet) was a sum of the main floor area, finished upper floor, unfinished mezzanine area and the greenhouse space.

[18] In response to a question from The Respondent, the Complainant stated that the lease rate of \$9.50 per square foot had been picked as a generally indicated market lease rate.

[19] The Complainant argued that the income and equity comparables included in the evidence supported a lower assessment and requested that the subject's 2012 assessment be reduced to \$1,507,500 (Exhibit C-1, page 7).

Position of the Respondent

[20] The Respondent presented an 87 page assessment brief (Exhibit R-1) and a law & legislation brief (Exhibit R-2) to the Board. The assessment brief included sales comparables and equity comparables that supported the subject's 2012 assessment of \$1,816,500 as fair and equitable.

[21] The Respondent explained to the Board that the subject assessment and similar assessments were prepared using the direct comparison assessment methodology. The Respondent stated that sales occurring from January 2008 through June 2011 were used in the model development and testing. (Exhibit R-2 pages 4-8).

[22] Factors found to affect value in the warehouse inventory were: the location of the property, the size of the lot, the age and condition of the buildings, the total area of the main floor (per building), the amount of finished area on the main floor as well as the developed upper area (per building). (Exhibit R-2 page 7).

[23] The most common unit of comparison for industrial properties is value per square foot of building area. When comparing properties on this basis, it is imperative that the site coverage be a key factor in the comparison. Properties with a larger amount of land in relation to the building footprint display a higher value per square foot, to account for the additional land value attributable to each unit of the building size (Exhibit R-2 page 8).

[24] The Respondent is legislatively obligated to use mass appraisal methodology for valuing individual properties. The Respondent employed the sales comparison approach for the 2012 annual assessment of all warehouse properties in Edmonton. The Respondent informed the Board that a large percentage of industrial property in Edmonton was owner occupied and had no income attributable to it, making the sales comparison a more reliable approach in this market place (R-2, page 6).

[25] The Respondent further advised the Board that owing to differences in age, condition, street-exposure, traffic conditions, type of construction and building sizes, the City assesses each building with its own attributes and combines the individual assessments to arrive at the total annual assessment for the total property. Upon questioning by the Board, the Respondent could not think of any alternative approach to yield a more reliable or equitable outcome.

[26] Responding to the Complainant's assertion that the market value of a property is not affected whether the total size of the improvements are comprised of a single building or of multiple buildings, the Respondent pointed out several qualitative and quantitative differences with the subject in the Complainant's evidence package that could potentially change the outcomes and not support the Respondent's position at all (Exhibit R-1, page 29)

[27] The Respondent advised the Board that the fabric covered greenhouse buildings had been assessed at \$36,000 on cost basis and the real property value lay in the land and the warehouse building measuring 11,562 square feet.

[28] The Respondent further pointed out that the correct site coverage for the subject property was 25% and not 38% as stated by the Complainant (C-1, page 9).

[29] Commenting on the equity comparables (R-1, page 16), the Respondent advised the Board that comparable #1 (8403 Davies Road) was inferior to the subject as it was not located on a major traffic artery. Overall, the six equity comparables supported the subject's assessment at \$154 per square foot.

[30] The Respondent pointed out that all of the Complainant's lease comparables (C-1, pages 14 & 15) had been taken from just three buildings and hence, could not be relied upon as good comparables.

[31] The Respondent defended the assessment using six equity comparables that ranged from \$152.41 per square foot to \$166.42 per square foot. This supported the subject's 2012 assessment of \$154.00 per square foot (R-1, page 16).

[32] During questioning, the Respondent indicated that economies of scale and other influencing factors such as the age, size, condition, location and functional obsolescence were adequately reflected in the time adjusted sales prices of the properties. This, in the Respondent's view, was evident from the ASR values being very close to 1 and the fact that all these had passed the provincial audit.

[33] In response to questions, the Respondent advised the Board that while several factors, such as the cost of construction, size and interior finishes; decreased investment risks and upward potential associated with multiple buildings; better site configuration or utilization; increased potential for subdivision for sale or rental options; and ability to make precise adjustments for assessment purposes influenced the value of the property, these were all accounted for in the market valuation and the sale prices of the properties.

[34] In response to the Complainant's argument to use 'income approach' for industrial properties, as advocated in 'Standard on Mass Appraisal of Real Property – 2012' (Exhibit C-2, page 14), the Respondent advised the Board that the same publication, continuing further in the same paragraph (4.6.3) stated, "Direct sales comparison models can be equally effective in large jurisdictions with sufficient sales", and stressed that the City of Edmonton was certainly such a jurisdiction (R-5, pages 1-2).

Decision

[35] The decision of the Board is to confirm the 2012 assessment at \$1,816,500 as fair and equitable.

Reasons for the Decision

[36] The Board is not persuaded by the Complainant's evidence. The Board is of the opinion that there are significant issues with the comparables presented by the Complainant for the purpose of establishing market value for the subject. All 4 equity comparables (C-1, page 9) have much higher site coverage than the subject. The condition of the comparables is also not evident from the table.

[37] The Board is persuaded by the Respondent's reasoning that owing to differences in age, condition, street-exposure, traffic conditions, type of construction and building sizes, it is fair

and appropriate to assess each building with its own characteristics and combine the individual assessments to arrive at the total annual assessment for the property. The Board notes that the City of Edmonton's 2012 warehouse assessments had passed the provincial government audit.

[38] The Board is not persuaded by the Complainant's evidence in support of the argument that the multi-building warehouse properties have been assessed unfairly and excessively by the city. The scatter chart (Exhibit C-1, page 52) presented in support of the argument were found to exclude several sales during the period. As pointed out by the Respondent, inclusion of all such sales would have altered the possible inferences.

[39] The Board notes that the Complainant's sales comparable tables intended to demonstrate that multiple-building warehouse properties did not command higher market values than the single-building properties were, as pointed out by the Respondent, sufficiently flawed as to not be of much assistance to the Board. This was highlighted by the Respondent in its documentation of the discrepancies in several of the Complainant's sales comparables tables (R-1, page 29).

[40] The Board agrees that the chart presented by the Respondent (R-1, page 29) showing deficiencies in the comparables presented by the Complainant played a significant role in minimizing the weight given by the Board to these sales comparables.

[41] The Board notes that the Complainant relied primarily on two arguments; one, that the respondent had assessed multi-building warehouse properties unfairly and two, that the Respondent had relied solely on the direct sales comparables ignoring the income approach that involved typical rental rates and capitalization rates to arrive at the market value.

[42] The Board recognizes that income approach is a valid methodology for establishing market value. However, the Board is persuaded by the Respondent's reasoning that a large percentage of industrial property in Edmonton is owner-occupied, and as such has no income attributable to it.

[43] The Board is not persuaded by the Complainant's argument that the 'Standard on Mass Appraisal of Real Property' text, advocates indiscriminate use of income approach for valuing industrial properties. The Board was advised by the Respondent that further on, in the same text, 'direct sales comparison' models were deemed equally and validly applicable.

[44] The Board notes that the Respondent is legislatively obligated to rely on mass appraisal methodology using one of the three approaches and that the City of Edmonton based its 2012 assessment in respect of medium warehouses on the direct sales comparison approach.

[45] The Board is persuaded by the Respondent's evidence that all warehouse properties in the jurisdiction have been assessed using the direct sales comparison approach. The Board agrees that the time adjusted sales prices include all meaningful influences on the property, economies of scale being one among them, and provide basis for fair comparison. The Board places considerable weight on the Respondent's evidence that approximately 60% of the warehouse sales that occurred in the year preceding the valuation date were in respect of the owner-occupied warehouse properties, with no reliable rental data. The Complainant's evidence confirmed that large proportion of industrial warehouses in southeast Edmonton were owner-occupied.

[46] The Board is persuaded by the Respondent's equity comparables (R-1, page 16) as there are sufficient similarities in the sizes of the buildings, lot sizes and site coverage.

[47] Jurisprudence has established that the onus of showing that an assessment is incorrect rests with the Complainant. The Board is satisfied that the Complainant did not provide sufficient and compelling evidence for the Board to form an opinion as to the incorrectness of the assessment.

Dissenting Opinion

[48] There was no dissenting opinion.

Heard commencing June 27, 2012.

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

Robert Mowbrey, Presiding Officer

Appearances:

Walid Melhem, Altus Group
for the Complainant

Mary-Alice Nagy, City of Edmonton
Tanya Smith, City of Edmonton
for the Respondent