



ASSESSMENT REVIEW BOARD

Churchill Building
10019 103 Avenue
Edmonton AB T5J 0G9
Phone: (780) 496-5026

NOTICE OF DECISION NO. 0098 760/11

Altus Group
17327 106A Avenue
EDMONTON, AB T5S 1M7

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 January 26, 2012, respecting a complaint for:

Roll Number	Municipal Address	Legal Description	Assessed Value	Assessment Type	Assessment Notice for:
9947901	8605 109 Street NW	Plan: 3901AJ Block: 186 Lot: 21-24	\$2,185,500	Annual New	2011

Before:

Robert Mowbrey, Presiding Officer
John Braim, Board Member
Tom Eapen, Board Member

Board Officer: Jason Morris

Persons Appearing on behalf of Complainant:

John Trelford, Altus Group

Persons Appearing on behalf of Respondent:

Tim Dueck, Assessor, City of Edmonton

PROCEDURAL MATTERS

1. The parties indicated that they had no objection to the composition of the Board. The Board members indicated that they had no bias to declare with regard to the subject property.

BACKGROUND

2. The subject property is a retail plaza located at 8605 - 109 Street NW in the Garneau neighbourhood of south Edmonton. The property consists of two buildings, a plaza of approximately 5,900 square feet, and a retail store of approximately 3,000 square feet, both located on a lot of approximately 21,800 square feet. The property was assessed on the income capitalization approach, and the 2011 assessment is \$2,185,500.

ISSUE(S)

3. What is the market value of the subject property?
4. What is the appropriate capitalization rate on the subject property?

LEGISLATION

5. *Municipal Government Act, RSA 2000, c M-26*
6. 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.
7. 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

8. The Complainant filed this complaint on the basis that the subject property has been assessed incorrectly and the values of the parking lots should be removed from the assessment as the lease rate for the buildings included parking. In addition the Complainant stated that the lease rate applied to the restaurant is in excess of the market rate and the capitalization rate (cap rate) applied to the net operating income is too low. It appears there was no dispute over the rates applied to the balance of the space or for the building located at 8625 – 109 Street.

9. For the restaurant space the Complainant provided the results of a survey, in chart form (Exhibit C-1, page 21) detailing 7 restaurant lease comparables of similar class and varying age in various locations throughout the City that were leased/renewed between June 2009 and November 2010. The spaces ranged in size from 1,000 sq ft to 2,452 sq ft and the unit rates ranged from \$15.50/ sq ft to \$28.00/ sq ft with an average of \$22.36/ sq ft and a median of \$23.00/ sq ft. Based on this survey the Complainant requested a unit rate of \$23.00/ sq ft should be applied to the subject space.
10. With reference to the cap rate the Complainant provided the results of an assessment or equity cap rate survey (Exhibit C-1, page 22) referencing 6 similar south side properties that were all in average condition like the subject. The comparables ranged in size from 1,164 sq ft to 22,333 sq ft and the cap rates applied by the Respondent in the assessment process ranged from 8.00% to 8.50%.
11. In support of this position the Complainant also provided the Board with an appraisal report effective November 1, 2010 of the subject property. The appraisal concluded that lease rates for this area ranged from \$18.00/ sq ft to \$23.00/ sq ft depending on location. The restaurant space appears to command the highest rate.
12. The appraisal report also included the details of 5 investment property sales that indicated cap rates of 6.56% to 7.98% from which the appraiser applied a cap rate for the subject of 7.25%.
13. In conclusion the Complainant requested a rental rate of \$23.00/ sq ft be applied to the restaurant area and a cap rate of 8.00% should be applied to the net operating income.
14. In rebuttal the Complainant provided a revised income statement for the 3 of the 4 roll numbers affected by the current assessment. When the net operating income of \$356,971 is capitalized at 7.25% the indicated value of the subject property is \$5,100,000 which is well supported by the appraised value of \$5,200,000.

POSITION OF THE RESPONDENT

15. The Respondent provided the Board with sixty eight pages of information to support the 2011 assessment for the subject property (R-1). For the purpose of the 2011 Annual Assessment, viable income producing properties were valued based on their income potential using 2010 market *net rental lease rates*, not *effective net lease*. The Income Approach is the approach of choice, as it best reflects the typical actions of buyers and sellers when purchasing income-producing properties. This approach estimates the value of a property by determining the present value of the projected income stream. Direct capitalization is the method of choice employed to value the majority of properties in the commercial inventory. This involves capitalizing the derived net income by an overall rate determined from comparable market sales (Exhibit R-1, page 6).
16. The Income Approach was deemed to be best method of establishing equitable valuation estimates. Ample information was provided by property owners with regards to both income and expense information, which also reinforced this decision (Exhibit R-1, page 7).

17. The Respondent provided the Board with a detailed report of the 2011 assessment calculations showing how the City calculated the 2011 assessment for the subject property (Exhibit R-1, page 18).
18. The Respondent also provided the Board with the rent roll given by the property manager (Exhibit R-1, pages 20 & 21).
19. The Respondent pointed out to the Board three cap rate comparables from properties in same neighborhood showing the cap rates used to assess these properties (Exhibit R-1, page 22). These were provided to defend the Respondents 7% overall cap rate to establish the assessment for the subject property.
20. In addition the Respondent provided seven assessment comparables for restaurants from various areas of the city (Exhibit R-1, page 25). These seven restaurant lease assessments were all at \$30.00/ sq ft. The Respondent also provided the Board with nine lease rate comparables showing the rental rates for restaurants in various locations throughout the city. (Exhibit R-1, page 25).
21. Based on the income capitalization assessment methodology, the Respondent requested the Board to confirm the 2011 assessment for the subject property at \$2,185,500.

DECISION

22. The decision of the Board is to reduce the 2011 assessment from \$2,185,500 to \$1,375,000.

REASONS FOR THE DECISION

23. The Board believes it is imperative that roll numbers 9947940, 9947901, 9947938 and 9957529 be treated as one commercial venture and not in isolation. The Board notes there is no dispute with roll number 9947940 for an assessment of \$3,395,000.
24. The Board notes the assessment methodology utilized by the City is the income capitalization valuation approach.
25. The Board believes the four properties would not trade on the open market independently, but would trade as one commercial venture. A purchaser or investor would make an investment on the four properties and certainly not purchase the units individually.
26. The Board agrees with the Complainant that the parking lots are intrinsic to the value of the two buildings.
27. The Board agrees with the Complainant that the parking lots are included in the rental rates paid by the tenants. The Board recognizes the fact that the parking lots are in excess of the legislative requirements, but notes the tenants were aware of the parking lot advantage to the building. With the parking lots being an integral part of the commercial

venture, the Board has deliberately deducted the assessment for the two parking lots from the subject property's assessment.

28. Based on the two building assessments, the value of the project is \$5,580,500. The one building of \$3,395,000 is not in dispute, thus the subject property's assessment of \$2,185,500 minus one parking lot assessments confirmed at \$310,500 and one parking lot assessment reduced to \$500,000 produces a 2011 assessment of \$1,375,000 for the subject property. The parking lot assessments are assessed on separate roll numbers.
29. The Board was persuaded by the Respondent's and the Complainant's actual net operating income of \$356,971. The Board notes that the long term debt interest has to be deducted from the Respondent's submission. When the net operating income of \$356,971 is capitalized at 7%, the indicated value of the project is \$5,100,000.
30. The Board notes the Complainant had provided a market value appraisal for the four properties at \$5,230,000. The appraiser utilized an NOI of \$378,945 and when capitalized by 7.25% produced a market value for the four properties of \$5,227,000, which tends to support the position that the project is over assessed at \$6,691,000.
31. The Board is satisfied the capitalization rate of 7% is correct, based on the assessment cap rates supplied by the Respondent, which are very close to the subject. In addition the Complainant did not dispute roll number 9947940 (assessment of \$3,395,000), which has a 7% cap rate and is an integral part of the subject property. Moreover, the appraisal report had utilized a 7.25% cap rate which gives some support to the 7% assessment cap rate but not the 8% requested by the Complainant.
32. The Board recommends the City combine the four roll numbers into one roll number, so the assessment income capitalization methodology is based on the two building and the adjoining parking lots. The Board suggests this would tend to ease the confusion regarding the parking lots.

DISSENTING OPINION AND REASONS

33. There was no dissenting opinion.

Dated this 17^{day} of February, 2012, at the City of Edmonton, in the Province of Alberta.

Robert Mowbrey, Presiding Officer

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: TRS HOLDINGS LTD