



## ASSESSMENT REVIEW BOARD

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

### NOTICE OF DECISION NO. 0098 774/11

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 February 13, 2012, respecting a complaint for:

Roll Number	Municipal Address	Legal Description	Assessed Value	Assessment Type	Assessment Notice for:
2708485	10339 124 STREET NW	Plan: RN22 Block: 21 Lot: 2 / Lot: 3 / Lot: 4	\$11,747,000	Annual New	2011

#### Before:

Robert Mowbrey, Presiding Officer  
Dale Doan, Board Member  
George Zaharia, Board Member

**Board Officer:** Segun Kaffo

#### Persons Appearing on behalf of Complainant:

Chris Buchanan

#### Persons Appearing on behalf of Respondent:

Brennen Tipton, Assessor  
Cam Ashmore, Legal Branch  
Darren Davies, Assessor  
Vasily Kim, Assessor

## **PROCEDURAL AND PRELIMINARY MATTERS**

[1] Upon questioning by the Presiding Officer, the parties indicated no objection to the composition of the Board. In addition, the Board advised the parties they had no bias with respect to this file. The parties giving evidence and testimony were either sworn in or affirmed, depending on the individual's preference.

## **BACKGROUND**

[2] The subject property is a class "A" multi-storey office building located at 10339 124 Street known as Princeton Plaza. The total assessed leasable area is 59,768 square feet and the 2011 assessment is \$11,747,000.

## **ISSUE(S)**

[3] The issues are:

- a. What is the market value of the subject property?
- b. During the hearing the parties agreed that the only two unresolved sub-issues were the office rental rate and the vacancy rate. The parties advised the Board that the size issue had been resolved and the square footage assessed is 59,768.

## **LEGISLATION**

[4] 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.

## **POSITION OF THE COMPLAINANT**

[5] The Complainant filed this complaint on the basis that the subject property's assessment of \$11,747,000 is in excess of market value. In support of this position, the Complainant presented a lease rate comparables chart to the Board (Exhibit C- 1, page 26). The Complainant stated that the best evidence are leases signed on or around the valuation date, thus the leases were selected on the basis of their proximity to the valuation date. The average of the 13 leases utilized was \$15.08 per square foot and the median of the leases utilized was \$14.75 per square foot, which supports the asking assessment value of \$15.00 per square foot. The Complainant advised the Board that four of the leases were post facto, but they could be utilized for trending purposes.

[6] The Complainant advised the Board regarding the subject property's rent roll (Exhibit C- 1, pages 17-25).

[7] The Complainant presented third party documentation to the Board advising the asking lease rates for 124<sup>th</sup> Street buildings were \$13.00 to \$15.00 per square foot and the highest lease was \$20.00 per square foot. (Exhibit C-1 page 55).

[8] The Complainant presented third party documentation from the Alberta Assessors' Association Valuation Guide. Two sections of the guide were highlighted; the first being Data Collection Guidelines (C-1, page 48), that states in part that "data should be pertinent to the valuation date", and the second section that was highlighted being Base Rent (C-1, page 52), that states to determine the current market rent as of the valuation date the best evidence of market rents are "actual leases signed on or around the valuation date".

[9] The Complainant presented information to the Board regarding the chronic vacancy of the subject property. The vacancy was shown to be 21.25 % in April 2011, 21.21% in December 2010 and 24.57% in 2009 (Exhibit C-1, page 15).

[10] Under argument, the Complainant advised the Board that the vacancy rate was over 14% if you used a rolling average on the Respondent's three year vacancy numbers.

[11] Based on the income capitalization methodology and the requested vacancy increase, the Complainant requests a 2011 assessment of \$9,281,000.

### **POSITION OF THE RESPONDENT**

[12] The Respondent advised the Board regarding the mass appraisal process the City of Edmonton utilizes for their office building inventory stating "the suburban office properties are assessed using the income approach via the direct capitalization method. This approach adjusts for attributes to arrive at a typical market value for properties in the inventory."

[13] Mass appraisal is a methodology for valuing individual properties which involves the following process:

1. Properties are stratified into groups of comparable property.
2. Common property attributes are identified for the properties in each group.
3. A uniform valuation model is calibrated for each group using market information incorporating the property attributes. (Exhibit R-1 page 4).

[14] The Respondent further advised the Board regarding typical market rent. The rent currently prevailing in the market for properties comparable to the subject property is the typical market rent, otherwise known as current economic rent. Current economic rents or market rents are used to form the basis of the valuation as opposed to actual rents, because in many cases actual rents reflect historical revenues derived from leases negotiated before the valuation date (Exhibit R-1, page 8).

[15] In determining gross potential income, the valuator is not bound by the contractual rent between the landlord and tenant, but must determine rental income on the basis of what is typically paid in the market at the time of valuation. This rent is known as "market" or "economic" rent. (Exhibit R-1, pages 4-13).

[16] The Respondent submitted the owner's rent roll for the subject property (Exhibit R-1, 24-34).

[17] The Respondent presented a chart detailing the 2011 suburban valuation rates. The Respondent advised the Board that the typical office rental rate for class “A” buildings in the 124<sup>th</sup> Street district was \$17.00 per square foot (Exhibit R-1, page 42).

[18] The Respondent presented the suburban 124<sup>th</sup> Street district class “A” buildings to the Board. All of the 124<sup>th</sup> Street class “A” buildings were assessed a typical \$17.00 per square foot rental rate. In addition, the office buildings were all valued at \$188.46 per square foot (Exhibit R-1, page 48).

[19] The Respondent presented two time adjusted leases to the Board detailing rents regarding class “A” buildings on 124<sup>th</sup> Street (Exhibit C-1, page 42). The average of the two leases was \$17.41 per square foot and the median was also \$17.41 per square foot. The Respondent utilized a time adjustment factor to bring the rental rate value to the valuation date (Exhibit C-1, page 45).

[20] The Respondent presented a chart detailing a number of deficiencies in the leases utilized by the Complainant (Exhibit C-1, page 46). Some of the deficiencies cited were post facto leases, step up leases and an incorrect start date.

[21] The Respondent presented a hypothetical sale of a suburban office to the Board. The Respondent advised the Board that if one reduces the rental rate of a suburban office, there would be a corresponding adjustment with the capitalization rate. The Responding stated there was a direct relationship between market rents and capitalization rates (Exhibit R-1, page 69).

[22] The Respondent advised the Board regarding the vacancy issue. While the Complainant had argued the subject property had a chronic vacancy issue, the Respondent reviewed the subject property’s vacancy for the last 3 years to determine if the vacancy is chronic and ongoing. The Respondent stated the owner of the subject property, under the request for information advised the City that the vacancy was 6.09 % in 2008, 10.35% in 2009, and 26.31% in 2010. Based on this, the City did not adjust for any chronic vacancy issue (Exhibit R-1, page 23).

[23] The Respondent advised the Board of a number of board orders regarding the valuation standard of market rent.

[24] Under cross examination, the Respondent asked the Complainant questions regarding the third party documentation. The Complainant stated the asking lease rates regarding 124<sup>th</sup> Street buildings included “A”, “B” and “C” class buildings.

[25] Under argument, the Respondent challenged the Complainant’s rental rate analysis stating that there were a number of deficiencies with the Complainant’s rental rate analysis and there were really only two that are valid.

[26] In addition, the Respondent challenged the Complainant regarding the Complainant’s testimony page 45 of C-1. The Respondent noted the Complainant only highlighted the one guideline, but the Respondent noted there were several additional guidelines that were included.

[27] In conclusion, the Respondent requested the Board to confirm the 2011 assessment of \$11,747,000.

## **DECISION**

[28] The decision of the Board is to reduce the 2011 assessment from \$11,747,000 to \$10,580,500 based on the increase in vacancy rate from 5% to 10%.

## **REASONS FOR THE DECISION**

[29] The Board reviewed both the Complainant's and Respondent's evidence and found the Respondent's evidence to be more compelling regarding the rental rate issue.

[30] The Board was persuaded by the Respondent's evidence regarding the fact that all 124<sup>th</sup> Street class "A" buildings were treated in a fair, equitable and consistent manner. All of the class "A" buildings had a typical lease rate of \$17.00 per square foot for assessment purposes.

[31] The Board was not persuaded by the Complainant's lease rate analysis. While the Board noted that the Complainant's leases were close to the valuation date, the Board noted the deficiencies with the leases. The Complainant had a number of 124<sup>th</sup> street "AA" class buildings, which is not suitable for comparability to 124<sup>th</sup> Street class "A" buildings. Three of the leases were post facto and another lease had an incorrect start date on the lease. In fact, there were only two leases that could be included in the lease rate analysis for class "A" buildings in the 124<sup>th</sup> Street district. However, the Board did note that the Complainant utilized all the leases on page 17, C-1 to arrive at a median of \$14.75 per square foot and an average of \$15.08 per square foot, which supports the assessment request of \$15.00 per square foot.

[32] The Board agrees with the Respondent that the Complainant should not use leases from the subject property that is alleged to suffer from chronic vacancy. Using a property suffering from chronic vacancy does not meet the mass appraisal guidelines, in which comparable properties should have similar attributes

[33] The onus is on the Complainant to provide sufficient and compelling evidence to show the incorrectness on an assessment. With only two leases that could be considered valid for analysis purposes only, the Board was satisfied the Complainant did not provide sufficient and compelling evidence to enable the Board to form an opinion as to the incorrectness of the assessment regarding the rental rate issue.

[34] The Board put little weight on the Respondent's actual lease comparables, as there were only two leases presented as evidence.

[35] The Board put little weight on the Complainant's third party documentation as the 124<sup>th</sup> Street asking lease rates were not broken down by building classes of "A", "B" and "C".

[36] The Board was persuaded by the Complainant's argument and testimony regarding the chronic vacancy issue. The Board was advised that the vacancy rate at December 31, 2008 was 10.37%, at December 1, 2009 was 27.18%, and at December 1, 2010 was 26.31%. The Respondent advised that when the vacancy rates exceeded 10% for three consecutive years, the typical vacancy rate is increased to 10%.

[37] The Board notes the rental rates charged on the subject property are at the low end of the range for class "A" buildings in the 124<sup>th</sup> Street district. With actual lease rents below typical

market rents, the inability to fully lease the subject property indicates a problem with the vacancy issue.

[38] The Board agrees with the Complainant that the subject property suffers from chronic vacancy and adjusts the vacancy from 5% to 10%.

### **DISSENTING OPINION AND REASONS**

[39] There was no dissenting opinion.

Dated this 24<sup>th</sup> day of February, 2012, at the City of Edmonton, in the Province of Alberta.

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Robert Mowbrey, Presiding Officer

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*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: MELCOR DEVELOPMENTS LTD