



ASSESSMENT REVIEW BOARD

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NOTICE OF DECISION NO. 0098 776/11

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 14, 2012, respecting a complaint for:

Roll Number	Municipal Address	Legal Description	Assessed Value	Assessment Type	Assessment Notice for:
3024197	9509 156 STREET NW	Plan: 6530ET Block: 7 Lot: 3 / 4 / 5 / 6	\$7,487,500	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, City of Edmonton
Vasily Kim, Assessor, City of Edmonton
Cam Ashmore, Legal Branch, City of Edmonton

PROCEDURAL MATTERS

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

PRELIMINARY MATTERS

[2] There were no preliminary matters.

BACKGROUND

[3] The subject property, located in the 149th Street District with a municipal address of 9509 - 156 Street NW, is a 49,845 square foot, three-storey office building comprising of 46,640 square feet of office space, 2,794 square feet of CRU space, and 411 square feet of storage space. Based on the City of Edmonton's parking requirements, the subject property is mandated to provide additional parking stalls. This was achieved by utilizing three neighbouring lots, each with its own roll number. Pursuant to an agreement between the Complainant and the Respondent, the total assessed values of these three roll numbers had been removed from the assessment of the subject property. The reduction to the subject's assessed value was \$1,097,500 rather than the original reduction of \$780,000, accounting for the recommended reduced assessment of the subject property in the amount of \$7,170,000.

ISSUE(S)

[4] The issues are:

- a. Is the 2011 assessment of the subject property too high compared to assessments of similar properties?
- b. Is the typical lease rate of \$15 per square foot too high?

LEGISLATION

[5] 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

[6] There had been an issue regarding the assessment of the subject property due to parking requirements. However, this issue had been resolved by reducing the assessment of the subject

property by the total assessments of three neighbouring lots. The amount of the reduction is \$1,097,500 as is included in the Respondent's revised pro forma (Exhibit R-1, page 23).

[7] The Complainant argued that the \$15 per square foot typical lease rate applied by the Respondent was excessive relative to the actual lease rates being achieved by the subject property. To support this position, the Complainant provided ten leases for spaces in another property in the same 149th Street District. The commencement dates of these leases were from December 1, 2009 to June 1, 2010 and ranged from \$9.00 to \$13.00 per square foot, resulting in an average of \$11.13 per square foot and a median of \$11.63 per square foot. The Complainant requested that the lease rate applied to the subject be lowered from \$15.00 to \$11.00 per square foot (Exhibit C-1, page 19).

[8] To support the market lease comparables shown on Exhibit C-1, page 19, the Complainant provided a December 2010 "Rent Roll" for the subject property including the lease rates per square foot along with the commencement and end dates of the leases (Exhibit C-1, page 16). The commencement date of leases ranged from January 1, 2002 to August 1, 2009, while the end date of the leases ranged from December 31, 2011 to June 30, 2021.

[9] The Complainant referred the Board to provisions in the Alberta Assessors' Association Valuation Guide. The two points that were being emphasized were:

1. "Data should be pertinent to the valuation date" (Exhibit C-1, page 41).
2. "Actual leases signed on or around the valuation date" is the most important factor in establishing the market rent (Exhibit C-1, page 45).

[10] The Complainant provided information authored by Colliers International which showed that the average asking rental rate for properties in the 149 Street District ranging from \$14 to \$16 per square foot (Exhibit C-1, page 48).

[11] By deducting the full assessed value of the three associated lots and reducing the rental rate from \$15 to \$11 per square foot, the Complainant requested the Board to reduce the assessment of the subject property from \$7,487,500 to \$4,836,500.

POSITION OF THE RESPONDENT

[12] The Respondent agreed to reduce the assessment of the subject property by the full assessed value of the associated lots. The Respondent provided a revised pro forma that showed a reduction in the assessment by the full assessed value of the three associated lots which was \$1,097,500.

[13] The Respondent stated that the City of Edmonton is legislated to use Mass Appraisal, thus applying typical market rents, typical vacancy rates, typical operational costs and typical capitalization rates to similar inventories. The subject property is classed as a "B" class building and has therefore been assessed as all other "B" class buildings in the 149th Street District.

[14] The Respondent included a "2011 Suburban Valuation Rates" used by the Respondent in establishing assessed values. Properties in the 149th Street District classed as "B" buildings as is the subject, were all assessed on the basis of a \$15 per square foot rental rate, a 5% vacancy rate, a 2% structural rate, a \$13 office vacancy shortfall, a \$13 CRU vacancy shortfall, and an 8% capitalization rate (Exhibit R-1, page 47).

[15] The Respondent provided nineteen leases from seven of the twenty-nine “B” class buildings in the 149th Street District. The effective dates of these leases ranged from January 1, 2009 to March 1, 2010 with expiry dates ranging from July 31, 2010 to February 29, 2020. The time-adjusted rents ranged from \$9.95 to \$17.71 per square foot resulting in an average of \$14.48 per square foot, and a median of \$15.36 per square foot (Exhibit R-1, page 48).

[16] The Respondent provided a chart of time adjustment factors covering the eighteen-month period between January 1, 2009 and June 30, 2010 (Exhibit R-1, page 50). These factors were applied to the leases used by the Respondent in determining the market rent used in establishing the assessed value of the subject property.

[17] The Respondent provided a review of the Complainant’s lease comparable chart. Two of the leases were deemed outdated since the commencement dates were June 1, 2005 and December 1, 2007, leaving the remaining eight leases as useable (Exhibit R-1, page 51). However, it was the position of the Respondent that the lease rates had to be adjusted upwards because of the additional parking revenue received by the owner of the comparable property, which is not typically the case with suburban office buildings.

[18] The Respondent included a hypothetical sale using different rent rates of \$13 and \$10 per square foot. The purpose of the illustration was to display the direct relationship between market rents and capitalization rates. In the example, if the market rent changes by \$3 per square foot, the capitalization rate changes by more than a full percentage point in order to arrive at the sale value. The illustration displays the importance of consistency when applying and deriving typical income parameters, and that the typical market rent and the typical cap rate is interrelated (Exhibit R-1, page 52).

[19] In order to prove equity, the Respondent provided a chart showing the typical rates used in establishing assessed values for all twenty-nine suburban “B” class office buildings in the 149th Street District. Of importance to this complaint, a typical office rent of \$15 per square foot was applied to all the properties, resulting in an assessed value of \$166.44 per square foot (Exhibit R-1, page 53).

[20] The Respondent provided seven Altus Insite reports that showed asking rents ranging from \$14 to \$18 per square foot for properties in the 149th Street District (Exhibit R-1, pages 54 – 60).

[21] The Respondent included a Colliers International report that showed a \$14 - \$16 asking rate for Suburban Market office space in the 149th Street District (Exhibit R-1, page 63).

[22] The Respondent requested the Board to confirm the recommended reduced 2011 assessment in the amount of \$7,170,000 that reflected the full reduction in assessment due to the removal of the three associated lots that were required for parking by the subject property.

DECISION

[23] The Board accepts the Respondent’s recommendation to reduce the 2011 assessment.

Roll Number	Original Assessment	New Assessment
3024197	\$7,487,500	\$7,170,000

REASONS FOR THE DECISION

[24] The Board placed less weight on the Complainant's comparable lease information since the leases provided were from one other property that had been subject to a complaint, and these comparable leases were deemed not appropriate.

[25] The Board concurred with the Complainant's position that leases signed on or around the valuation date are preferable. However, the Board acknowledged that leases that may be dated within a reasonable time frame, when time-adjusted to the valuation date are valid. This position is supported by a Calgary ARB Decision 0660/2010-P that stated: *"The valuation date is set out in legislation and in the opinion of the Board; time adjusting market rents to valuation date is no less critical than time adjusting sales or any other market data to the valuation date. In a dynamic market, the average or median market rent of the preceding 12 month period will obviously be higher or lower (depending on the direction of the market) than the typical market rent as of the valuation date"* (Issue 2A, page 6 of 10). With respect to this complaint, the Respondent time adjusted the leases that were used to support the applied \$15 per square foot typical rent. In fact, the time adjusted median of \$15.36 per square foot is lower than the unadjusted median of \$16.25 per square foot, suggesting that there was a "down market".

[26] The Board placed less weight on the Colliers International average asking rent information because it included all classes of buildings (AA, A, B, C) while the subject property is a "B" class building. However, it is interesting to note that the average asking range for rents in Suburban Market "B" class buildings in the 149th Street District was \$14 - \$16 per square foot supporting the Respondent's applied typical rent of \$15 per square foot.

[27] The Board placed greater weight on the lease comparables provided by the Respondent. Nineteen leases were provided from seven of the twenty-nine properties in the 149th Street District. The time adjusted median resulting from these nineteen leases was \$15.36, supporting the typical lease rate of \$15.00 applied by the Respondent to all the Suburban Office "B" class buildings in the 149th Street District.

[28] The Board agrees with the Respondent's position that *"current economic or market rents are used to form the basis of evaluation as opposed to actual rents"*. This position is supported by the Alberta Assessors' Association Valuation Guide that states: *"In determining gross potential income the assessor is not bound by the contractual rent between the landlord and the tenant. Current market rents should be used to form the basis of evaluation as opposed to actual rents because actual rents may reflect what market rents were at the time (before the valuation date) and a given lease was negotiated"*.

[29] In terms of equity, the Board was persuaded by the Respondent's chart that showed that all rates applied to all the twenty-nine properties in the 149th Street district were identical, resulting in the same \$166.44 assessment per square foot.

[30] The Board accepted the parties' resolve on the associated lots issue resulting in the recommended reduced assessment submitted by the Respondent.

[31] The Board is persuaded that the reduced assessment of \$7,170,000 for the subject property is fair and equitable.

DISSENTING OPINION AND REASONS

[32] There was no dissenting opinion.

Dated this 24th 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: HANS HEINRICH VON SRBIK