



ASSESSMENT REVIEW BOARD

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NOTICE OF DECISION NO. 0098 911/11

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 April 18, 2012, respecting a complaint for:

Roll Number	Municipal Address	Legal Description	Assessed Value	Assessment Type	Assessment Notice for:
9988209	8103 Roper Road NW	Plan: 0121618 Block: 10 Lot: 8	\$40,226,500	Annual New	2011

Before:

Patricia Mowbrey, Presiding Officer
George Zaharia, Board Member
Howard Worrell, Board Member

Board Officer: Segun Kaffo

Persons Appearing on behalf of Complainant:

Walid Melhem

Persons Appearing on behalf of Respondent:

Joel Schmaus, Assessor

PROCEDURAL MATTERS

[1] Upon questioning by the Presiding Officer, the parties indicated there was no objection to the Composition of the Board, and the Board members indicated no bias with respect to the file.

PRELIMINARY MATTERS

[2] There were no preliminary matters.

BACKGROUND

[3] The subject property is classified as a large warehouse and is comprised of 11 buildings located in SE Edmonton in the McIntyre Industrial subdivision at 8103 Roper Road. The year built for the 11 buildings range from 1998 to 2006, and they total 291,275 square feet in building size with site coverage of 34%,

ISSUE(S)

[4] The issues are:

- i. Is the 2011 Assessment for the subject property correct?
- ii. Is the 2011 Assessment for the subject property equitable?
- iii. Is the Income Approach the appropriate method of valuation for the retail component of the subject property?

LEGISLATION

[5] The applicable legislation 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.

s 293(1) In preparing an assessment, the assessor must, in a fair and equitable manner,

- (a) apply the valuation and other standards set out in the regulations, and

(b) follow the procedures set out in the regulations.

(2) If there are no procedures set out in the regulations for preparing assessments, the assessor must take into consideration assessments of similar property in the same municipality in which the property that is being assessed is located.

Matters Relating To Assessment and Taxation Regulation AR 220/2004;

s 2 An assessment of property based on market value

- (a) must be prepared using mass appraisal,
- (b) must be an estimate of the value of the fee simple estate in the property, and
- (c) must reflect typical market conditions for properties similar to that property.

s 3 Any assessment prepared in accordance with the Act must be an estimate of the value of a property on July 1 of the assessment year.

s 4(1) The valuation standard for a parcel of land is

- (a) market value, or
- (b) if the parcel is used for farming operations, agricultural use value.

5(1) The valuation standard for improvements is

- (a) the valuation standard set out in section 7, 8 or 9, for the improvements referred to in those sections, or
- (b) for other improvements, market value.

6(1) When an assessor is preparing an assessment for a parcel of land and the improvements to it, the valuation standard for the land and improvements is market value unless subsection (2) or (3) applies.

POSITION OF THE COMPLAINANT

[6] The Complainant stated that the subject property's 2011 assessment of \$40,226,500 is incorrect and inequitable. The Complainant further stated that the Income Approach to Value is the appropriate method to value the retail portion of the subject property.

[7] The Complainant described the subject as a unique property, in that the industrial classification should be considered as dual purpose, as there is a portion of the total space that is used for retail purposes. The property is zoned DC2 which allows mixed uses, and as such, a portion of the subject property was used for retail.

[8] The Complainant proposed the retail portion of the subject should be assessed using the income approach. Thus an income valuation was provided for the subject property retail portion, indicating it was completed in the same manner as other similar retail properties had been valued. The Complainant presented five Power Centre Valuation Summary documents of various Power Centres which had incorporated the rental rates for bank pads at \$30 and \$40 per sq. ft.,

restaurant pads at \$30 per sq. ft., and CRU spaces that ranged from \$12 to \$22 per sq. ft. Vacancy allowance was at 3%, structural allowance at 2%, vacancy shortfall at \$7.00 per sq. ft. and a capitalization rate of 8% was used (C-1, pages 17 to 21).

[9] The Retail Portion Income Valuation document presented in the Complainant's evidence proposed a value of \$6,548,734 for the 19,966 square feet retail portion of the subject property. The CRU space of 8,605 square feet was valued at a market rent of \$21.00 per sq ft., restaurant space of 2,861 square feet at \$30.00 per sq. ft., bank pad space of 8,500 square feet at \$34.00 per sq. ft. There Complainant applied a vacancy allowance of 3%, structural allowance of 2% and a vacancy shortfall of \$7.00 per sq. ft., and using a capitalization rate of 8% arrived at the valuation for the retail portion of the subject property of \$6,548,734 (C-1, page 8).

[10] The Complainant provided five sales comparables for large industrial warehouses, and brought the Board's attention to the shape of the subject in that one side of the subject property is facing 75th Street, a major arterial road, and another side faces an interior road and that there are 11 buildings on the site. The Complainant reiterated that the subject was a unique property and there were no true comparables in the City of Edmonton.

[11] The Complainant indicated that comparable #1 and #4 are located on a major road and comparable #1 had a change to the time adjusted sales price from a previous hearing. Comparables #1, #3, and #4 are located in the NW industrial area, whereas comparable #2 and #5 are located in the SE industrial area similar to the subject. The Complainant changed and initialed the price per sq. ft. for comparable #1 to \$78.13 to reflect the correct sales price. The building sizes of the comparables ranged from 163,368 square feet to 399,767 square feet, and the range of time-adjusted sales prices was \$69.89 per sq. ft. to \$84.55 per sq. ft., with an average of \$77.09 per sq. ft. and a median of \$78.13 per sq. ft. The Complainant requested a value for the warehouse portion of the subject property, based on sales comparables, of \$85.00 per sq. ft. or \$23,035,935 (C-1, page 9).

[12] The Complainant argued the factors related to economies of scale were important when valuing the subject property. There is a tendency for price per sq. ft. for land or building space to decrease as the property size increases, and conversely, the price per sq. ft. tends to increase as the property size decreases (C-1, page 10). The argument was that the subject property is at the upper end of the size range for the comparables, and is a total of 11 buildings, and therefore the subject should be in the lower range of price per sq. ft. The Complainant further argued that the total square footage is a sum of the parts, and should not be valued as smaller individual buildings as if on smaller individual sites, as a purchaser would have no choice but to purchase the total property. The Complainant argued that the Respondent had assessed the subject property using the smaller property comparables to determine an assessed value of the subject.

[13] The Complainant brought to the Board's attention MGA s 293(1) which states "*In preparing an assessment, the assessor must, in a fair and equitable manner, (a) apply the valuation standards set out in the regulations, and (b) follow the procedures set out in the regulations. (2) If there are no procedures set out in the regulations for preparing assessments, the assessor must take into consideration assessments of similar property in the same municipality in which the property that is being assessed is located*". The Complainant stated there were so few reasonably comparable properties in the City of Edmonton that could be compared to the subject.

[14] The Complainant presented five equity comparables noting that comparable #3's price per sq. ft. had been changed in a previous hearing but did not have the amended price per sq. ft. The Complainant noted that comparables #1, #2, and #5 were located on major roads, but otherwise were similar in location, age, site coverage, size, and excluding comparable # 3, ranged in size from 130,134 square feet to 232,011 square feet, and ranged in assessment per sq. ft. from \$96.90 to \$111.76. The Complainant presented an assessment value for the warehouse portion of the subject property, based on equity comparables, of \$112.00 per sq. ft. or \$30,353,000 (C-1, pages 7 & 12).

[15] The Complainant concluded that based on the evidence presented, the requested 2011 assessment for the subject property is \$6,548,500 for the retail portion and \$23,035,935 for the industrial warehouse portion, for a total requested 2011 assessment of \$29,584,500 (C-1, page 12).

POSITION OF THE RESPONDENT

[16] The position of the Respondent is that the 2011 Assessment for the subject property of \$40,226,500 is correct and equitable.

[17] The Respondent referred the Board to the Mass Appraisal Methodology and indicated that is the process by which all the assessments are prepared. Properties are grouped and specifically warehouses are grouped as standard industrial warehouses, and are assessed using the Industrial Warehouse model. They are defined as buildings used to store, manufacture and distribute products, are constructed of different materials, and can be single or multiple-user in nature. Many factors affect the value of the industrial warehouse and adjustments are made to arrive at a typical market value. The Respondent pointed out that the resulting assessments were tested and met Provincial Quality Standards as set out in Matters Relating to Assessment and Taxation Regulation, AR 220/2004.

[18] The Respondent noted to the Board that in the assessment of the subject property, a 10% negative adjustment was given to buildings #4, #7 and # 8 for rear building location, and that they had been removed from the major road category in arriving at the 2011 assessment of \$40,226,500.

[19] The Respondent provided two sales comparables of large industrial properties. Comparable sale #1, located in the NW industrial area, is less than ½ the size of the subject, is similar in age, condition and site coverage, and has a time-adjusted sales price of \$125.32 per sq. ft. (R-1, page 19).

[20] Comparable sale #2 was the subject property which sold April 19, 2010, two months prior to the valuation date of July 1, 2010, for \$40,284,150 or \$138.30 per sq. ft. The Respondent stated that this was the best indicator of value (R-1, page 19).

[21] The Respondent presented an additional four sales comparable #3 to #6, of smaller sized one-building industrial warehouse properties located on smaller sites. The comparables were similar to the subject in location, age, condition, site coverage, but the sizes ranged from 23,958 to 39,663 square feet, with prices per sq. ft. ranging from \$124.00 to \$150.01. The Respondent

indicted that the smaller industrial warehouse comparables contribute to the assessment values of smaller buildings on a larger site such as the subject (R-1, page 19).

[22] The Respondent explained that properties with smaller multiple buildings on a large site have been shown to compete at a higher value per sq. ft. than a single large building on a large site. The factors that affect the sales prices include the cost to construct a larger building, a greater risk of vacancy in a larger building, greater freedom to lease in a smaller building, and the potential to subdivide.

[23] The Respondent presented eight equity comparables of which comparable #1 and #2 are large industrial warehouse properties. Comparable #1 has two buildings, is similar in location, newer in age, has lower site coverage and is half the size of the subject, and is assessed at \$134.43 per sq. ft. (R-1, page 26).

[24] Comparable #2 has four buildings on site, is similar in age, condition, site coverage and size and is assessed at \$131.16 per sq. ft. (R-1, page 26).

[25] Comparables #3 to #8 are smaller one-building properties and range in size from 22,250 to 37,292 square feet with assessments ranging from \$128.38 per sq. ft. to \$140.35 per sq. ft. The Respondent indicated that the smaller comparables are specific to the individual smaller buildings on the subject site (R-1, page 26).

[26] The Respondent requested the Board to confirm the 2011 assessment of the subject property at \$40,226,500.

DECISION

[27] The Decision of the Board is to confirm the subject property's 2011 assessment of \$40,226,500.

REASONS FOR THE DECISION

[28] The Board recognized that the subject was a unique in that it is a large property with 11 buildings located on a large site, is zoned DC2 which allows mixed uses, and also recognized that a portion of the subject was used for retail purposes.

[29] The Board considered but placed less weight on the Income Approach to Value that was argued by the Complainant for the retail portion of the subject since the Complainant presented only the valuation summary reports from Power Shopping Centres. There was a lack of substantive support for the values presented, such as lease rates, vacancy allowance, structural allowance, vacancy shortfall, and capitalization rate.

[30] The Board placed less weight on the Complainant's five sales comparables since they differed significantly from the subject that has 11 smaller buildings located on a large site, whereas, the five comparables are single large buildings on a large site. The Board noted that comparables #1, #3 and #4 were located in the northwest industrial area of the City, with only #2 and #5 being located in the southeast industrial area, the same as the subject. As well, the site

coverage of comparables #3 and #5 at 56% and 54% respectively, are significantly higher than the subject at 34%.

[31] The Board considered the Complainant's argument related to economies of scale, that the tendency for price per sq. ft. for land or building space to decrease as the size increases and conversely the price per sq. ft. tends to increase as the property size decreases. The Board is of the opinion that relationship may follow if comparing 1 single building to another single building on a site, but it is difficult to establish a relationship when comparing 11 smaller buildings to 1 large building on a site taking into account the many different characteristics of the properties.

[32] The Board placed less weight on the five equity comparables presented by the Complainant which although were large industrial properties that ranged in size from 130,134 square feet to 232,011 square feet compared to the subject at 291,275 square feet, they differed significantly from the subject that has 11 smaller buildings on a large site, while the five equity comparables comprise 1 and 2 larger buildings on a large site.

[33] The Board considered the comments offered by the Respondent that based on the third party reports submitted as evidence by the Complainant, the Complainant's comparables had below market lease rates, and had vacancy issues that would result in the lower sales prices.

[34] The Board reviewed the Respondent's evidence which included six sales comparables, the first 2 being of large warehouse properties. The Board placed less weight on comparable #1 that was a single large building, located in the west industrial area of the City on an interior road. The Board placed greatest weight on comparable sale #2, as it is the sale of the subject property. The sale occurred April 19, 2010, two months prior to the valuation date of July 2, 2010 for a time-adjusted sale price of \$40,284,150 or \$138.30 per sq. ft. The Board noted that the 3rd party sales report, submitted as evidence by the Respondent, noted that the subject had received multiple offers which clearly indicated that the sale was an open market transaction.

[35] The Board placed less weight on the Respondent's sales comparables #3 to #6 since they were of smaller single buildings located on smaller individual sites, compared to the 11 smaller buildings on the subject's large site. The Board is cognizant of the Respondent's argument that large properties with multiple buildings sell at a higher price than those with a single large building on a large site; however, the Board placed less weight on the Respondent's approach of supporting the assessment of the subject that has eleven buildings by providing time-adjusted sales prices of single similar sized buildings on smaller sites.

[36] The Board reviewed the Respondent's eight equity comparables. Comparables #1 and #2 are large properties with two and four buildings, located in the southeast industrial area of the City. Comparable #1 is on a major road, #2 is on an interior road, and both are similar to the subject in condition, age, size, and site coverage. Both comparables have greater upper office development than the subject. The assessments at \$134.43 and \$131.16 per sq. ft. respectively, support the subject property's assessment of \$138.10 per sq. ft.

[37] The Board placed less weight on the Respondent's equity comparables #3 to #8 since they are smaller single buildings on smaller sites compared to the subject with 11 smaller buildings on a large site. The Board, as discussed previously, placed less weight on the

Respondent's approach of supporting the assessment of the subject that has eleven buildings by providing assessments of single similar sized buildings on smaller sites.

[38] In conclusion, the Board placed the greatest weight on the sale of the subject property on April 19, 2010, for a sale price of \$40,284,150 or \$138.30 per sq. ft. which supports the 2011 assessment of the subject property.

[39] The Board finds the subject property's 2011 assessment of \$40,226,500 to be correct, fair and equitable.

DISSENTING OPINION AND REASONS

[40] There was no dissenting opinion.

Dated this 14th day of May, 2012, at the City of Edmonton, in the Province of Alberta.

Patricia 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: CONCERT REAL ESTATE CORPORATION