

## **Edmonton Composite Assessment Review Board**

**Citation: Altus Group v The City of Edmonton, 2013 ECARB 01407**

**Assessment Roll Number:** 3820271

**Municipal Address:** 3312 Gateway Boulevard

**Assessment Year:** 2013

**Assessment Type:** Annual New

Between:

**Jim Pattison Developments Ltd, as represented by Altus Group**

Complainant

and

**The City of Edmonton, Assessment and Taxation Branch**

Respondent

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### **DECISION OF**

**James Fleming, Presiding Officer**

**Brian Hetherington, Board Member**

**Jack Jones, Board Member**

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### **Procedural Matters**

[1] The parties had no objections to the composition of the panel. No bias was declared by the panel.

[2] At the request of the City, the parties were sworn.

[3] This complaint was one of a number (7) heard on September 16<sup>th</sup> and 17<sup>th</sup>. All of these complaints had issues in common. The two issues common to all complaints were firstly, the use of a 95% factor applied to the area to calculate the net operating income in the valuation (the 95% Issue) and secondly, what is the appropriate Capitalization Rate to use in valuing the subject (the Cap Rate Issue)?

[4] The 95% Issue and the Cap Rate Issue were fully argued in the complaint against Roll Number 9970356, the first hearing of the week (heard September 16<sup>th</sup>). The parties and the panel carried forward all the evidence and argument and questions on these two issues for the two days of hearings.

### **Preliminary Matters**

[5] At the hearing, both parties agreed to a change in the allocation of space. This is best outlined in Ex. C1 page 10. As a result of this reallocation, the City recommended reducing the assessment from \$35,626,000 to **\$35,419,500**.

## **Background**

[6] The subject property was built in 1991 and is classified as a Power Centre known as South Trail Plaza located in south Edmonton. It consists of 143,191 square feet of lease able area on 428,081 square feet of land and has been assessed utilizing the income approach to valuation for 2013 at \$35,626,000.

## **Issue(s)**

[7] The Complainant initially listed nine issues in their disclosure. Upon questioning at the outset of the hearing they identified three issues remaining:

- a. Does equitable treatment of the subject property require using 95% of the Gross Building Area (GBA) to calculate the net income for the Income Approach to Value?
- b. Should the Capitalization Rate used in the valuation be increased from 6.5% to 7.0%?
- c. What is the best evidence for the Rental Rate for the Food Store and the Jr. Anchor?

## **Legislation**

[8] ***The Municipal Government Act, RSA 2000, c M-26, reads:***

s 1(1)(n) "market value" means the amount that a property, as defined in section 284(1)(r), might be expected to realize if it is sold on the open market by a willing seller to a willing buyer.

s 297 (1) When preparing an assessment of property, the assessor must assign one or more of the following assessment classes to the property:

- (a) class 1 - residential;
- (b) class 2 - non-residential;
- (c) class 3 - farm land;
- (d) class 4 - machinery and equipment.

(2) A council may by bylaw

- (a) divide class 1 into sub-classes on any basis it considers appropriate, and
- (b) divide class 2 into the following sub-classes:
  - (i) vacant non-residential;
  - (ii) improved non-residential,and if the council does so, the assessor may assign one or more sub-classes to a property.

s 289 (1) Assessments for all property in a municipality, other than linear property, must be prepared by the assessor appointed by the municipality.

(2) Each assessment must reflect

(a) the characteristics and physical condition of the property on December 31 of the year prior to the year in which a tax is imposed under Part 10 in respect of the property, and

(b) the valuation and other standards set out in the regulations for that property.

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.

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.

### ***The Matters Relating to Assessment and Taxation Regulation, Alberta Regulation 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.

### **Issue 1: The Property should be Valued Based on 95% of the GBA**

#### **Position of the Complainant**

[9] The Complainant argued that several of the properties contained in Ex. C2 had uses which were very similar to those present in the subject, and noted that the valuation of these similar properties was done by taking 95% of the Gross Building Area (GBA) and then applying an income approach to value the property.

[10] The subject property was also valued on the income approach to value, but the area used was 100% of the Net Leasable Area (NLA). This, argued the Complainant, created an inequity, and the taxpayer was entitled to equitable treatment and so the subject property should be valued using the same 95% attribute. Exhibit C2 contained 92 examples of properties which had their valuation incorporate the 95% factor.

[11] In addition, the Complainant highlighted three examples showing that in 2012, the properties were assessed using 95% of the City Assessed Area (See Ex. C1, pgs. 103 - 108). They initially raised this in a different context, noting that the three properties in 2012 were

all assessed by two valuation groups at the City and these valuations produced differing values, demonstrating that the 2012 Assessment (prepared by the General Retail Valuation Group using the 95% number) was 6.5% lower than the number produced by the Shopping Centre Valuation Group for the same year.

- [12] They highlighted other properties (Ex C2, pg. 1) which they argued appeared to be classed as a Neighbourhood Shopping Centres, yet were assessed on the 95% of the area. They suggested if these were classed as Neighbourhood Centres and assessed using the 95% number, then the subject property should obtain similar treatment.
- [13] The Complainant argued that this fact highlighted the inequity inherent in the assessment by two groups. They noted that the existence of two similar groups (shopping centre and retail) in the City Assessment department with two differing sets of variables is not equitable.
- [14] In their rebuttal, the Complainants included further evidence of properties they said were similar to the subject but were assessed using the 95% factor. As well, they provided calculations (Ex. C3 pgs. 88 - 96 ) showing the “theoretical” difference in the assessments between the two assessment groups (Shopping Centres versus General Retail) when they valued the same property.
- [15] The Complainant felt that this comprehensive evidence supported their request for equitable treatment using 95% of the area to calculate the assessed value for the subject.

#### **Position of the Respondent**

- [16] The Respondent argued that the City has the authority to stratify properties in order to achieve the best result in establishing value. They indicated that, in this case, the City had established two groups, a general retail group, and a shopping centre group. Each of these groups applied different attributes although some of these attributes were the same.
- [17] For the Retail category, they indicated that, in general, the properties did not have an anchor tenant, and as well, often owners did not submit completed annual requests for information. As a result, the City had adopted the practice of taking 95% of the gross building area (GBA) and then applying an income approach to value.
- [18] For the Neighbourhood Shopping Centre category, the City provided a description (Ex. R1, pg. 186) which highlighted that there typically was an anchor tenant, and the Centres were generally less than 250,000 square feet in size. The Neighbourhood Shopping Centre group typically used 100% of the net leasable area.
- [19] This discrepancy in the areas used to calculate the value is the heart of the issue. However, the City argues that the discrepancy does not really exist. They pointed out in (Ex. R1, pg. 9) that many of the owners of Retail properties do not provide data to the City. The City completed a study and determined that 95% of the Gross Building Area (GBA) of these retail properties is about equal to the Net Leasable Area (NLA). Shopping Centres typically respond with the NLA numbers.
- [20] Thus, based on their analysis, the City has determined that 95% of the GBA in Retail is roughly equal to 100% of GLA in Shopping Centres. From the City perspective, the methods yield an acceptable similar end result.

- [21] The Respondent acknowledged that the 2012 assessment for three properties had been calculated using the 95% figure, but they indicated that this was an error which had been corrected for the 2013 assessment. They provided evidence (Ex. R1 pgs. 13 - 18) which showed that the three properties, noted by the Complainant, had only been classed as retail for 2012, and had been classed as shopping centre prior to 2012, and that the correction of the error had restored the shopping centre classification in 2013.
- [22] The Respondent asserted that the classification breakdown of the all of the properties was correct, and was done in accordance with their authority.
- [23] In regard to the properties in C2 the Respondent noted that the LUC (Land Use Classification) did not represent the valuation group used for assessment, and they affirmed that the properties were in fact general retail for assessment purposes.
- [24] Finally, the Respondent noted that this issue had been heard previously by several CARBs this year and to their knowledge, all panels had rejected this argument. They provided copies of CARB decisions (Ex. R1 pg. 85 - 111) which rejected the argument.
- [25] In summary, the Respondent requested confirmation of the assessment.

#### **Decision on Issue 1: 95% Request**

- [26] The assessment for the subject is correctly calculated by using 100% of the leasable area.

#### **Reasons for Issue 1:**

- [27] The CARB reviewed all of the evidence and argument.
- [28] The CARB agrees that the City has the right to assign properties to different sub-classes, and that comes from the legislation. *The Municipal Government Act, RSA 2000, c M-26, Sec 297* (MGA). As well, Section 2 (c) of *Matters Relating to Assessment and Taxation AR310/2009* (MRAT)
- [29] The CARB concluded it needed to consider two issues. The first was whether there was an equity issue comparing the subject with other properties. If there was found to be an equity issue, then further exploration would be warranted to establish how an equitable rate might be applied to the subject property given that the City had argued that 100% of NLA was equivalent to 95% of GBA, and therefore the rates were typically similar.
- [30] Assessment equity has been defined and codified by many tribunals and courts to embody the concept of similar properties. The Respondent has indicated that the subject property is a Neighbourhood Shopping Centre while the comparables suggested by the Complainant are all classed by the City as General Retail. This, the Respondent argues, is a different classification which they are entitled to make and thus the subject and the comparables are not similar. The Complainant responds that regardless of the classification the properties are similar based on use and the type of tenancy.
- [31] The Respondent attempted to explain the difference in the classification principally in terms of the size (the larger it is, the more likely it is to meet the classification as a shopping centre), the existence of an anchor tenant, and as well, arguably, the behavior of the class of owners in responding to requests for information. The Respondent says that the Shopping

Centre group represents a homogeneous category of properties which behave in a similar fashion. The CARB did not receive sufficient evidence to dispute this.

- [32] The Respondent advised that generally smaller non-anchored developments typically fit into the General Retail category. The CARB did not receive sufficient evidence to dispute this.
- [33] It was clear to the CARB that the City has two distinct groupings of properties. The Complainant did not argue for a differing classification (i.e. from Shopping Centres to Retail or vice versa). They were not positioning their argument in that way, but rather simply that in their opinion the properties were similar and thus were entitled to similar treatment.
- [34] The CARB noted that individual tenants can appear in different classifications, and in fact, it occurs all the time. It is possible that one tenant could appear in a Power Centre and in a Neighbourhood Shopping Centre in another location, and perhaps in a Regional Shopping Centre somewhere else. It is likely that in each of these properties, the tenant and the property will have different attributes. The typical rent may be different; the vacancy may be different; and the capitalization rate may differ for each type of property.
- [35] The point here is to demonstrate that the type of tenant is not the determining factor in the assessment. Rather, it is the type of stratification which the City applies in their mass appraisal in order to group properties which exhibit the same factors/behaviour.
- [36] The CARB did not receive sufficient evidence from the Complainant that the subject property was similar enough to warrant the same treatment as the property in another classification.
- [37] The CARB concludes that because the properties are legitimately stratified in different classifications by the City, the subject property is not similar to the properties in Ex. C2 for purposes of requiring equitable treatment between them.
- [38] In reaching this decision, the CARB considered the three properties classed as retail in 2012. The CARB accepts that this was an error on the part of the City. This conclusion is supported by the fact that the properties had been classed as Shopping Centres prior to 2012 and were returned to the shopping centre stratification for 2013.
- [39] In addition, the CARB reviewed examples from C2 brought forward by the Complainant. The CARB acknowledges the wording on the Annual Realty Assessment Details form (on Ex. C2, pg. 22 for instance) specifies Neighbourhood Plaza Shopping Centre (or words to that effect) in several locations, but the CARB accepts the argument of the City that those are Land Use or zoning classifications, not assessment groups.
- [40] Finally, the CARB noticed, as it has on some similar complaints for other properties, that the Gross Building Area (GBA) in the City documents (which were provided by the Complainant), is smaller than the Gross Leasable Area (GLA) for the property (141,964 square feet GBA vs. 143,191 square feet GLA). This is clearly impossible and highlighted for the CARB, the potential unreliability of the GBA figures. While this calls into question the nature of the relationship between GBA and GLA, there was not enough evidence to make a determinative decision on this matter, nor was it a particularly live issue in this complaint because of the different classifications/stratifications of the properties. (see Ex. C1, pg. 8 & pg. 12 for details).

- [41] The principal reason for the decision was the lack of similarity between the properties in the Shopping Centre class and the others in the General Retail class which is a prerequisite for a claim of equitable treatment.

## **Issue 2: What is the Best Evidence of the Capitalization Rate**

### **Position of the Complainant**

- [42] The Complainant provided 24 sales of properties (with back up) to support their Capitalization Rate (cap rate) request (Ex. C1. Pg. 29). They acknowledged that six of the sales should be excluded for a variety of reasons.
- [43] The Median and Average having excluded the six were 7.15% and 7.24% respectively. The assessment for the subject property was calculated based on a cap rate of 6.50%. They felt that their study provided good support for the use of a 7.00% cap rate for the subject.
- [44] Upon questioning, the Complainant admitted that there was very little adjustment of the data. They suspected the Network (the data provider) had probably adjusted for large vacancies but probably not for date of sale, type of retail and/or size.
- [45] The Complainant argued though that actual market sales should be used as they are the truest reflection of what was actually happening in the market.
- [46] In their Rebuttal, the Complainant suggested that the nature of the adjustments made by the City in their cap rate adjustment model did not accurately reflect the market particularly where there were below market leases and other significant divergences from the norm.
- [47] They asked that a cap rate of 7.00% be used for the valuation.

### **Position of the Respondent**

- [48] The Respondent provided a cap rate study utilizing 14 City-wide sales over the previous three years. This study produced a median of 6.18% and an average of 6.20% in support of the City cap rate of 6.50% used in the valuation. (Ex. R1, pg. 29)
- [49] The Respondent was most critical of the Complainant's study because there were no adjustments used by the Complainant. The Respondent indicated that in order to get a truly valid cap rate analysis, the sales had to be adjusted to bring them to the valuation date. One needed to use "typical" rental rates for the valuation year, and also to time adjust the sales price. One would then calculate the cap rate with this up to date data.
- [50] The City provided an update to the Altus Cap Rate study using adjusted figures and the seven sales which were common to both parties' analysis, showing the difference between adjusting and not adjusting the net income. (Ex. R1 pg. 46)
- [51] The Respondent provided summaries of cap rates from third party data suppliers. While acknowledging the weakness of third party data, the City noted that they were using the third party data to "support" not "establish" the cap rate calculation. Thus they felt it was appropriate to cite the third party evidence to show that their cap rate was well supported.
- [52] They asked for confirmation of the 6.50% cap rate.

## **Decision**

[53] The assessment for the subject is correctly calculated by using a capitalization rate of 6.5%.

## **Reasons for the Decision**

[54] The CARB considered all of the evidence and argument on this issue.

[55] The CARB accepts the City's position that the correct method for calculating the cap rate for properties that have sold prior to the valuation date must use the "typical" rents for the subject for the valuation year. As well the "actual" sales price must be time adjusted to adequately reflect the value at the valuation date. This is accepted assessment methodology.

[56] The Complainant argued that this method of calculation was not appropriate in certain circumstances (for instance where there are very low rental rates). The Complainant did not offer a suitable alternative method of valuation other than using the actual data. The CARB concluded that the adjustments used by the City were necessary in order to "standardize" the values to a particular date (the valuation date), and allow an apples to apples comparison. Accordingly, the use of "straight sales data" was not given much weight.

[57] In addition, the CARB noted that the third Party data (Ex. R1, pgs. 54 - 58) generally supported the City rate.

[58] Accordingly, the CARB makes the decision as noted above.

## **Issue 3: What is the best evidence for the Rental Rate for the Food Store and the Jr. Anchor?**

### **Position of the Complainant**

[59] In support of a requested reduction of the assessed lease rate of the Food Store component of the subject property from \$15.50 to \$13.00 per square foot, the Complainant presented an analysis that expressed Food Store lease rates as a percentage of the adjoining CRU lease rates (C-1, pages 25 & 26). The purpose of this analysis was to demonstrate an inequity of the Food Store / CRU ratios based on the ages of the properties included in the analysis. The Complainant noted that by lowering the assessed lease rate of properties similar in age to the subject that the ratios achieved were more equitable.

[60] The Complainant also presented an analysis of the lease comparables provided by the Respondent (C-1, page 27) eliminating leases deemed as problematic (ie: dated leases, step up leases, etc.). The Complainant added two leases not utilized by the Respondent and arrived at a median lease rate of \$12.24 per square foot as further support for the requested Food Store lease rate of \$13.00 per square foot.

[61] In support of a requested reduction of the assessed lease rate of the Junior Anchor component of the subject property from \$14.00 to \$12.25 per square foot, the Complainant presented three lease comparables (C-1, page 28) with a median value of \$12.25 per square foot. The Complainant also noted that the actual 2012 lease rate for the subject Junior Anchor is \$14.11 per square foot followed by four years at \$11.07 for an average lease rate of \$11.67 per square foot over a five year term.



[62] The Complainant also referenced a 2012 CARB decision (C-3, pages 2 to 9) to indicate that there were essentially two classifications of Junior Anchor tenants, one of which was able to negotiate lower lease rates with landlords and that the subject tenant fell into the lower lease rate category.

### **Position of the Respondent**

[63] In support of an assessed lease rate of \$15.50 per square foot for the Food Store component of the subject property the Respondent presented actual lease rate comparables (R-1, page 47) that were utilized in developing the assessed lease rate of \$15.50 per square foot. The comparables utilized were in a grouping ranging in age from 1991 to 2007. The Respondent advised that the City stratifies Food Stores based on age into categories as follows: 1980 and older, 1981 to 1990, 1991 to 2007 and 2008 and newer (R-1, page 190).

[64] The Respondent also provided equity comparables (R-1, page 52) of Food Stores in the same age and size range as the subject property that were all assessed at \$15.50 per square foot.

[65] The Respondent referenced a 2013 CARB decision (R-1, pages 103 to 111) which confirmed a \$15.50 Food Store lease rate as fair and equitable.

[66] In support of an assessed lease rate of \$14.00 per square foot for the Junior Anchor component of the subject property the Respondent presented actual lease rate comparables (R-1, page 48 & 53) that were utilized in developing the assessed lease rate of \$14.00 per square foot. The median values from these two charts were \$15.75 and \$14.75 per square foot respectively.

### **Decision**

[67] The decision of the Board is to confirm the assessed lease rate of the Food Store component of the subject property at \$15.50 per square foot as fair and equitable.

[68] The decision of the Board is to confirm the assessed lease rate of the Junior Anchor component of the subject property at \$14.00 per square foot as fair and equitable.

### **Reasons for the Decision**

[69] With respect to the issue of the lease rate of the Food Store component of the subject property the Board placed greatest weight on the evidence and argument provided by the Respondent.

[70] The Board found that the analysis presented by the Complainant (C-1, pages 25 & 26) linking the Food Store lease rates by ratio to adjoining CRU lease rates was not an appraisal methodology that was supported within the evidence.

[71] The Board determined that the actual lease rate comparables presented by the Respondent (R-1, page 47) supported the assessed lease rates of \$15.50 per square foot which were applied in an equitable manner in the assessments of Food Store properties of a similar age and size (R-1, page 52).

[72] With respect to the issue of the lease rate of the Junior Anchor component of the subject property the Board placed greatest weight on the evidence and argument provided by the Respondent.

[73] The Board found that the evidence provided by the Complainant (C-1, page 28) was lacking in that it only addressed three existing leases albeit that they were similar to the subject property.

[74] The Board determined that the actual lease rate comparables presented by the Respondent (R-1, pages 48 & 52) was a more comprehensive analysis of the market place as a whole in developing a Junior Anchor lease rate of \$14.00 per square foot which has been applied equitably in the assessments of similar Junior Anchor properties.

### **Summary**

[75] The CARB considered three issues and made decisions as follows

- a. 100% of the GLA should be used to calculate the net income.
- b. The Capitalization Rate is confirmed at 6.5%
- c. The assessed rental rate for the Food Store and the Jr. Anchor are confirmed at \$15.50 and \$14.00 respectively.

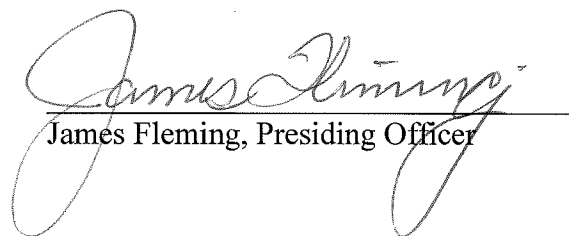
[76] In addition, the CARB accepts the recommendation from the City (concerning space allocation) and reduces the Assessment from \$35,626,000 to **\$35,419,500.**

### **Dissenting Opinion**

[77] There was no dissenting opinion.

Heard on September 17, 2013.

Dated this 30<sup>th</sup> day of September, 2013, at the City of Edmonton, Alberta.

  
James Fleming, Presiding Officer

### **Appearances:**

Jordan Nichol, Altus Group  
for the Complainant

Amy Cheuk, Law Branch, City of Edmonton  
Chris Rumsey, Assessor, City of Edmonton  
for the Respondent

*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.*