CALGARY ASSESSMENT REVIEW BOARD DECISION WITH REASONS

In the matter of the complaint against the Property assessment as provided by the *Municipal Government Act*, Chapter M-26.1, Section 460(4).

between:

Altus Group, COMPLAINANT

and

The City Of Calgary, RESPONDENT

before:

W. Kipp, Presiding Officer
J. Massey, Board Member
D. Steele, Board Member

This is a complaint to the Calgary Assessment Review Board in respect of a Property assessment prepared by the Assessor of The City of Calgary and entered in the 2010 Assessment Roll as follows:

ROLL NUMBER: **117002600**

LOCATION ADDRESS: **7939 – 54 Street SE, Calgary AB**

HEARING NUMBER: **56432**

ASSESSMENT: **$3,470,000**

This complaint was heard on the 1st day of September, 2010 at the office of the Assessment Review Board located at Floor Number 4, 1212 – 31 Avenue NE, Calgary, Alberta, Boardroom 3.

Appeared on behalf of the Complainant:

- D. Mewha

Appeared on behalf of the Respondent:

- J. Greer

Board's Decision in Respect of Procedural or Jurisdictional Matters:

The Complainant informed the Board at the outset of the hearing that there would be some reliance on a binder of materials that had been submitted for several industrial complaints. For this hearing, the binder was market as Exhibit C3. Further, a rebuttal document had been filed under a different hearing number (59712) but it was also applicable to this hearing. The rebuttal document was market as Exhibit C4.

Property Description:

The property that is the subject of this complaint is an industrial property comprising a 19,749 square foot (Rentable Building Area) industrial building situated on a 1.87 acre I-G (Industrial General) lot. Built in 1998, the single tenant building footprint area (16,097 square feet) indicates a site coverage ratio of 19.77%. The property is located in Starfield Industrial which is designated for assessment purposes as SF1 (South Foothills 1).

Since the site coverage ratio is less than the "typical" 30%, the assessment reflects an adjustment for 0.71 acre of "Extra Land."

Issues:

The Complainant raised the following matters in section 4 of the complaint form: [
Assessment amount (No. 3 on the form) and Assessment class (No. 4 on the form).

The Complainant also raised the following specific issues in section 5 of the Complaint form:

- *The subject property is assessed in contravention of Section 293 of the Municipal Government Act and Alberta Regulation 220/2004*
- *The use, quality, and physical condition attributed by the municipality to the subject property is incorrect, inequitable and does not satisfy the requirement of Section 289 (2) of the Municipal Government Act*
- *The assessment should be reduced to the lower of market value or equitable value based on numerous decisions of Canadian Courts*
- *The information requested from the municipality pursuant to Section 299 or 300 of the Municipal Government Act was not provided*
- *The aggregate assessment per square foot applied is inequitable with the assessments of*

other similar and competing properties and should be $130 psf

- *The aggregate assessment per square foot applied to the subject does not reflect market value for assessment purposes when using the direct sales comparison approach and should be $130 psf*
- *The assessment regression model method used is incorrect and does not accurately reflect the market value for assessment purposes of the subject property*
- *The valuation method used for them subject property is fundamentally flawed in both derivation and application*
- *The characteristics & physical condition of the subject property support the use of the income approach utilizing typical market factors for rent, vacancy, mgmnt, non recoverables and cap rates, indicating an assessment market value of $118 psf*

As of the date of this hearing, only the following issues were argued by the Complainant:

Issue 1: Market value by the Income Approach
Issue 2: Equity
Issue 3: Land Adjustment included in the assessment

Complainant's Requested Value:

$3,010,000 ($152 per square foot of rentable building area)

Board's Decision in Respect of Each Issue:

Party Positions on Each Issue:

Issue 1: Market Value/Income Approach

The Complainant argued that the property assessment based on the Respondent's multiple regression direct sales comparison valuation method is flawed and that a more realistic value indicator would be achieved if the income approach to value was used.

Application of the income approach involved setting a typical rent rate at $11.00 per square foot, a vacancy allowance of 5.0% and a capitalization rate of 7.50%. After an "extra land" adjustment of $267,840, the indicated property value was $3,019,534. A second application of the approach was undertaken on the same basis except that the $11.00 rent rate was replaced by the Net Annual Rental Value (NARV) rates that were used by the Respondent in calculating the assessment for business tax purposes ($9.00 and $10.00 per square foot for building components and $0.50 per square foot for 49,269 square feet of extra land). This second value estimate was $2,598,864.

The Respondent did not undertake an income approach valuation. In the evidence, the Respondent had provided data on nine industrial property sales. In response to the Complainant's income approach, the Respondent analyzed each of its sales by inputting the Complainant's income approach input factors to determine how the income approach value would vary from the actual sale price and the Assessment to Sales Ratio (ASR) for each property. ASR's ranged from 0.57 to 1.06 with a median of 0.67. Only one ASR was within the desired 0.95 to 1.05 ASR range. If all but one of the indicated ASR's were outside of the desired range, then the income approach method, with the current input factors, must be flawed and therefore does not produce a realistic value for the subject property.

Issue 2: Equity

The Complainant provided data on assessments of four properties considered comparable to the subject. All four were of similar age and the floor areas bracketed that of the subject. The only variance was in interior finish wherein the subject had 33% of the floor area finished but the comparables only had from 14% to 20% finished. Site coverage ratios of the comparables were around the 30% "typical" ratio so an adjustment ($267,840) was made for extra land. The indicated assessment based on this equity comparison was $3,091,947 or $157 per square foot of building area.

The Respondent's seven equity comparables included buildings as small as 10,305 square feet and as large as 24,140 square feet. Year of construction ranged from 1982 to 1999. Finish ratios were from 17% to 39% and site coverage ratios were from 15% to 30%. Just one property, with a small building on a larger lot, was adjusted for extra land. Without any other adjustments, the assessments ranged from $148 to $218 per square foot of building area.

Issue 3: Land Adjustment included in the assessment

The assessment of the subject property included an adjustment for 0.71 acre of extra land. This extra land amount is determined from the actual site coverage ratio (19.77%) versus the "typical" ratio of 30%. The amount of the adjustment is not divulged because it is made within the model.

The Complainant estimated the land adjustment of $267,840 by starting with a base land value of $620,000 per acre which was the rate supported by sales of industrial lots in the southeast industrial area. By the Complainant's calculations, the extra land was 0.72 acre, slightly different than the 0.71 acre indicated on the assessment summary. Since the 0.72 acre was considered by the Complainant as "unsubdividable", it was adjusted downwards by 40% to yield the $267,840 adjustment amount.

The Respondent did not explain the extra land adjustment in the assessment. A table of land sales was in evidence that showed prices (after time adjustments) from $244,444 per acre to $1,406,250 per acre for lots that ranged in size from 0.558 acre to 29.75 acres. This evidence was to support the Respondent's contention that the base rate of $620,000 per acre used by the Complainant was incorrect.

Complainant's Rebuttal:

The assessment is calculated by use of a multiple regression direct sales comparison approach model. In support of the assessment amount, the Respondent included data on nine industrial property sales of properties in the southeast industrial region. Rentable building areas were from 8,120 to 19,920 square feet. Interior finish ratios were from 13% to 47% and site coverage ratios were from 10.39% to 39.89%. Year of construction for the comparables was from 1981 to 2008. There was no evidence of any adjustments to the sales data for any variance but there were time adjustments made. Time adjusted prices ranged from $132 to $246 per square foot with a median of $207.

In rebuttal evidence, the Complainant included details of some of the Respondent's sales that indicated that there may have been inaccuracies in the data or concerns about the legitimacy of those sales as comparables.

Findings

In view of the above considerations, the Composite Assessment Review Board (CARB) finds as follows with respect to the Issues:

The subject property is within a size range where there is ample evidence to value it by the direct sales comparison approach. That is the method used by the Respondent for most industrial properties so it is reasonable to use it here.

The income approach is a valuable valuation method for properties where there have been no recent sales of similar properties, such as where there is a very large building (i.e., over 100,000 square feet).

The Complainant's handling of the land adjustment was based on a reasonable analysis and it was essentially unchallenged by the Respondent.

The improved property sales in the Respondent's evidence were for properties where there were significant variances between some of those properties and the subject. As a result, the Board cannot accept the median rate from all sales of $207 per square foot as being indicative of the value of the subject. If the most comparable sales are extracted from the table, the rates from those sales tend to support a rate of about $150 to $160 per square foot for the subject.

From the equity perspective, the Complainant's comparables were reasonable but several of the Respondent's comparables were significantly dissimilar to the subject. Those that were most similar tended to support the Complainant's requested assessment of $157 per square foot of building area.

Notwithstanding that the Complainant used a different valuation method than the Board considers appropriate for valuing this property, the other evidence tends to support the Complainant's requested value.

Board's Decision:

The 2010 assessment is reduced from $3,470,000 to $3,010,000.

It is so ordered.

DATED AT THE CITY OF CALGARY THIS 5 **DAY OF** October **2010.**

W. Kipp

W. Kipp
Presiding Officer

SUMMARY OF EXHIBITS

Exhibit

C1 Assessment Review Board Complaint Form
C2 Evidence Submission of the Complainant
C3 Altus 2010 Industrial Assessment Argument
C4 Altus 2010 Rebuttal Evidence
R1 Respondent's Assessment Brief

An appeal may be made to the Court of Queen's Bench on a question of law or jurisdiction with respect to a decision of an assessment review board.

Any of the following may appeal the decision of an assessment review board:

(a) the complainant;

(b) an assessed person, other than the complainant, who is affected by the decision;

(c) the municipality, if the decision being appealed relates to property that is within the boundaries of that municipality;

(d) the assessor for a municipality referred to in clause (c).

An application for leave to appeal must be filed with the Court of Queen's Bench within 30 days after the persons notified of the hearing receive the decision, and notice of the application for leave to appeal must be given to

(a) the assessment review board, and

(b) any other persons as the judge directs.