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, Section 460, Revised Statutes of Alberta 2000 (the Act).

between:

SREIT (QUEST FOOTHILLS) LTD. (as represented by Altus Group), COMPLAINANT

and

The City Of Calgary, RESPONDENT

before:

R. Glenn, PRESIDING OFFICER
B. Jerchel, MEMBER
B. Kodak, 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 2011 Assessment Roll as follows:

ROLL NUMBER:	**116011495**
LOCATION ADDRESS:	**4155 75 AVE SE**
HEARING NUMBER:	**63619**
ASSESSMENT:	**$5,750,000**

This complaint was heard on the 5th day of July, 2011 at the offices of the Assessment Review Board located on Floor Number 4, at 1212 – 31 Avenue NE, in Calgary, Alberta, in Boardroom 1.

Appeared on behalf of the Complainant: John Smiley (Agent) Altus Group

Appeared on behalf of the Respondent: Ian Baigent (Assessor) The City of Calgary

NOTE: This matter was heard together with file # 63615 (see WR # 1308-2011-P) and # 63858 (see WR # 1358-2001-P) and # 64462 (see WR # 1365-2011-P) and #63648 (see WR # 1370-2011-P). The Complainant presented one argument and brief for all 5 matters, whereas the Respondent argued and provided a brief for each one separately. Each of the Respondent's briefs on these matters presented some different comparables, but the briefs varied very little in approach and substance.

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

No issues of procedure or jurisdiction were raised.

Property Description:

The subject is an industrial warehouse, built in 1980, comprising 83,044 SF, with 51% site coverage, and 10% finish, located in Foothills Industrial Park in south east Calgary.

Issues:

Whether the subject building is properly assessed in light of queries regarding which method of valuation is appropriate, and, queries regarding the most appropriate vacancy rate and suitable capitalization rate.

Complainant's Requested Value:

$4,300,000

Board's Decision in Respect of Each Matter or Issue:

The Complainant argues that there have been no sales of similarly aged properties in the Foothills area since prior to the summer of 2007. Further, given the dearth of suitable sales, the income approach will provide the most reliable estimation of value, so the Respondent should not rely on the Market Sales Approach.

In addition, vacancy and capitalization rates can be derived from the market place, and the

background for these values and their derivation is discussed at length in the Industrial Capitalization Rate Analysis Study supplied by the Complainant.

Based on their use of typical values required for capitalized income analysis, the Complainant suggests the subject has been over-assessed, or, assessed at a value higher than its market value and seeks a reduction in the assessment.

The Complainant's Study acknowledges that it is up to the parties to decide which of the 3 approaches to value they will use. The method that produces the most reliable result should be selected. While this is true, the parties do not always agree on which method is the most appropriate. The Complainant then canvasses each of the 3 methods, attempting to justify the method of valuation they have chosen.

They emphasize that there must be a sufficient number of recent comparable sales, and where there is insufficient sales data, another valuation approach should be used. In addition, they say that economic conditions limit the reliability of the sales approach. They go on to say that the key to a successful sales comparison in a mass appraisal environment is to stratify or classify the comparable properties into groups containing common elements, which they say the Respondent has not done.

The Complainant argues that the Respondents present only a very limited number of sales for the relevant time frame, and therefore, the Respondents should have chosen another method of valuation, yet in their comparables, the Complainant relied on only 8 properties. They comment on the Assessment to Sales ratio, or, ASR which the Respondent used for their sales comparables. They say that only 23% of the sales comparables fall within the mandated ASR range of .95 to 1,05, which means that 77% do not fall within the range. Therefore, the Respondent should not rely on the Market Sales Approach.

The Complainant then provides a discussion of Income Approach-Capitalization Rate, emphasizing that it makes no sense to develop a capitalization rate on one set of assumptions about long-term vacancy rates, long-terms rents, and long-term expenses and then apply that rate to the income of the subject property, if it is not derived in exactly the same way.

They argue that the appropriate methodology is to calculate the capitalization rates from comparable sales utilizing actual income and then deduct a vacancy and expense allowance in a consistent manner.

The Complainant comments on the calculation of the vacancy rate. They apply a uniform 5% vacancy/non-recoverable allowance citywide. They claim this keeps things "consistent". They also state that third party reporting bodies indicate a wide variance in reported survey-derived cap rates, and they provide examples.

They also provide several examples showing the cap rate for newer (post-1994) "A" industrial properties should be 7.75% and older (pre-1994) "B" buildings should be 8.25%.

The Respondent in their brief and argument reviews the concept of mass appraisal and several other basic concepts. They suggest that a sales approach to market value is the appropriate method to be used to determine value in the subject. They say there is more than enough sales evidence to support using the Direct Sales Approach to value, and they provide comparables.

The main thrust of their argument is that the income approach isn't a reliable indicator of value in this case because the variables used by the Complainant here are very subjective regarding indicated net income (lease rates, vacancy rates) and capitalization rates as analyzed by the Complainant. They say the Complainant's data is not uniform. The Complainant did not provide original Rent Rolls, so essentially the Complainant's Income calculation is not substantiated. The Complainants say the Rent Rolls were obtained, but they could not disclose them, because of confidentiality concerns. The Respondents argue that Rent Rolls have been disclosed in other hearings, and so, why not here?

The Respondents say the Complainant has not provided any supportive evidence of their requested assessed value through their Assessment to Market Sales Analysis. They say that the Complainant's ASR's simply "do not line up". They say that "Sales drive the Market". The Respondent has provided lease comparables in response to income information supplied by the Complainant. The Respondents argue that the Complainant's comparables are all smaller than the subject and therefore the results are not accurate (that is, smaller properties attract a higher rate).

The Respondent also provides Assessment Equity data to demonstrate an equitable distribution of Market Value as determined through mass appraisal application. They say the best test of the value of a property is "What value has the market placed on the property?" They acknowledge that they rely on Multiple Regression Analysis, which they say is based on all relevant factors. They say "trust the computer".

They sum up by saying that all the evidence heard leads to the conclusion that the Direct Sales Approach provides the best indicator of value, and that mass appraisal must be employed to derive Market Value. They say mass appraisal allows for statistical testing, whereas the Complainant's Income Approach to Value does not. They say the Complainant emphasizes income in their argument, but then never really deals with market value.

In the Complainant's presentation regarding their Cap Rate Study, they mixed components, that is, they were not uniform, because they mixed Actual figures and values with Typical figures and values. The Complainant was very subjective in their choice of which numbers they applied. They also relied on third party information without adequate substantiation for some of their argument.

On a full and comprehensive review and careful consideration of all the evidence before it in this matter, the Board finds that the Complainant's evidence was not substantial enough to convince the Board that the subject assessment is in error. Therefore, the Complainant has failed to meet the onus required of it for a reduction. Accordingly, the subject assessment is confirmed in the amount of $5,750,000.

Board's Decision:

The subject assessment is confirmed.

DATED AT THE CITY OF CALGARY THIS 29 DAY OF JULY, 2011.

Richard Glenn
Presiding Officer

APENDIX "A"

DOCUMENTS PRESENTED AT THE HEARING AND CONSIDERED BY THE BOARD:

NO.	ITEM
1. C1	Complainant Disclosure
2. R1	Respondent Disclosure
3. C2	Complainant's Cap Rate Study
4. C3	Complainants Rebuttal

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.