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:

Dundee Flex Properties INC. (as represented by Colliers International Realty Advisors Inc.), COMPLAINANT

and

The City Of Calgary, RESPONDENT

before:

K. D. Kelly, PRESIDING OFFICER
K. Coolidge, MEMBER
J. Rankin, 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 2012 Assessment Roll as follows:

ROLL NUMBER:	**049018005**
LOCATION ADDRESS:	**2876 Sunridge WY NE**
HEARING NUMBER:	**66252**
ASSESSMENT:	**$5,280,000**

This complaint was heard on 8th day of August, 2012 at the office of the Assessment Review Board located at Floor Number 4, 1212 – 31 Avenue NE, Calgary, Alberta, Boardroom 6.

Appeared on behalf of the Complainant:

- *Mr. T. Howell – Colliers International Realty Advisors Inc.*

Appeared on behalf of the Respondent:

- *Mr. J. W. Ehler - Assessor – City of Calgary*

REGARDING BREVITY:

[1] The Composite Assessment Review Board (CARB) reviewed all the evidence submitted by both parties. The extensive nature of the submissions dictated that in some instances certain evidence was found to be more relevant than others. The CARB will restrict its comments to the items it found to be most relevant.

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

[2] None.

Property Description:

[3] The subject is a 30,000 square foot (SF) single-tenant industrial purpose-built laboratory/research building constructed circa 2000 on 2.29 acres (Ac.) of land in the Sunridge (2) industrial area. The subject has been assessed using the Cost Approach to Value. The land portion of the total value is $1,834,568 at $800,000 per Ac., and the building value using Marshall and Swift is valued at $3,451,239 for a total (rounded) assessment of $5,280,000.

[4] **Issue:**

What is the correct market value of the subject based on the Income Approach to Value rather than the Cost Approach to value?

[5] **Complainant's Requested Value:** $4,630,000.

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

[6] The Complainant argued that notwithstanding the City's use of the Cost Approach to Value, the subject is essentially similar in many respects to a typical warehouse building and therefore the Income Approach to Value methodology must be used to more accurately determine the subject's market value. He clarified that he would generate a revised assessment value by focusing on the key input variables of rent, vacancy, and Capitalization Rate (cap rate) to produce a more correct value using the Income methodology.

[7] The Complainant provided the tenant (rent) roll for the subject which identified the current rent for the subject's only tenant at $12.50 per SF.

[8] The Complainant declared therefore, that for his Income Approach calculation for the subject, he had selected the actual site-specific $12.50 per SF rent currently charged in the subject.

[9] The Complainant supported his $12.50 per SF rent selection by displaying in a matrix what he considered to be four other "typical" 2010 market rents for similar space – plus the subject. The leased space comparables were said to be in four other similar nearby buildings owned by Dundee. However, the Complainant did not provide the rent rolls for any of the four comparative buildings. He noted that the five rents in this matrix ranged from $7.00 per SF to $12.50 per SF, - the latter being the subject.

[10] The Respondent also included one additional 2010 rent for $6.75 per SF from what he called a "non-Dundee building". The leased areas of the four "Dundee" spaces ranged from 10,240 SF; to 10,555 SF; to 12,800 SF; to 53,110 SF whereas the subject is 30,000 SF. The non-Dundee building is 23,466 SF. The Complainant argued that this evidence supported his decision to use $12.50 per SF in his "Income Approach to Value" calculation.

[11] The Complainant presented an excerpt of a Colliers International Q2 2011 Industrial Market Report for Calgary which noted that a "typical" industrial vacancy rate for the Sunridge area of Calgary was 5.57%. He opted to use this value in his "Income" calculation.

[12] The Complainant provided the RealNet summary sheets for three market sales of industrial properties – all from NE Calgary, which he considered similar to the subject. Sale #1 at 1826 – 25 AV NE occurred May 2011. Sale #2 at 1245 – 28 ST NE occurred December 2010. Sale #3 at 700 – 33 ST NE occurred May 2011.

[13] The Complainant also placed the details of each sale in a matrix, which revealed three Capitalization Rates (cap rates) of 7.45 %; 7.6%; and 8.5% respectively. He concluded from analysis of these five sales that a "stabilized" 7.50% was an appropriate "typical" cap rate to use in his revised calculation of value for the subject.

[14] Therefore, using the Income Approach to Value methodology, and applying as inputs to that calculation, values of $12.50 per SF for rent; 5.57% for vacancy rate; a 7.50% cap rate; and a self-calculated Net Operating Income (NOI) of $347,030, the Complainant calculated that the assessed value of the subject should be $4,627,070 or $154.24 per SF. The Complainant provided a copy of Assessment Review Board decision CARB 1191/2011-P which he considered supported his position.

[15] The Complainant provided a copy of the City's 2008 Cost Approach to Value detailed calculations for the subject which displayed an indicated assessed value of $5,422,857. He noted that the City had valued the land portion at $960,000 per Ac. at that time. He also noted that the current assessment values the 2.29 Ac. site at a lesser $800,000 per Ac. The Complainant argued that the land rate should be even lower, and he therefore provided a matrix of four market sales to indicate alternate land value.

[16] The Complainant's matrix identified one 2005; one 2007; and two 2006 Sunridge unadjusted land sales, said to be vacant parcels ranging from 2.25 Ac. to 4.58 Ac. in size. However, the Complainant did not provide any RealNet or Colliers market sale sheets to detail the specifics of either the sites themselves, or the sales. The values indicated in the Complainant's matrix ranged from $834,000 per Ac. to $1,254,000 per Ac. The Complainant provided no alternate calculations using this material, and made no additional comment or argument concerning this point.

[17] Based on his Income Approach to Value calculations, the Complainant requested a revised assessment of $4,630,000.

[18] The Respondent argued that the Complainant's basic premise regarding this appeal is fundamentally flawed since the subject is a single-purpose "specialty" building assessed using the Cost Approach to Value. He argued that the Complainant has essentially acknowledged this fact with his provision of the City's 2008 "Costed" assessment detail sheets in his Brief C-1. The Respondent provided several interior and exterior photos of the subject to demonstrate this point.

[19] The Respondent argued that it is incorrect to use an Income Approach to value the subject because of its unique characteristics, which the Complainant has failed to effectively dispute. In addition, he argued that the Complainant has not challenged or otherwise critiqued any of the calculations used in the Cost Approach as applied by the City to value the improvements on the subject.

[20] The Respondent argued that the Complainant has not provided any supported evidence that the six market sale comparables identified in his Brief R-1 and used to support the $800,000 per Ac. land value portion of the subject's assessment, are inappropriate or otherwise not comparable. He argued that to the contrary, the Complainant only provided a matrix of four "old", unsupported, and unadjusted "*Post Facto*" market sales from 2005 to 2007. He argued that the Complainant had not provided any indication as to a preferred land rate from analysis of this material, or any alternate calculations using this data, nor had the Complainant compared his four "older" sales to the Respondent's more recent sales.

[21] The Respondent argued that the Income Approach as completed by the Complainant is fundamentally flawed, and the results he has calculated are therefore invalid and unreliable. He argued for example that the Complainant has not provided any tenant rent rolls to support four of the five rents (the subject being the fifth) he selected as being "typical" from his comparable properties. Therefore, he argued, it is not possible from the extremely limited information he provided, to determine either the validity or comparative accuracy of this data.

[22] The Respondent provided the City's 2010 Assessment Request For Information (ARFI) document completed by the subject's tenant which reveals a current rent of $18.00 per SF. He noted that the Complainant had identified a rent of only $12.50 per SF which he used in his Income Approach calculations for the subject.

[23] The Respondent argued that the Complainant's selection of a 7.5% capitalization rate based on three market sales of properties, which, in his view, are quite dissimilar to the subject, to be completely arbitrary and inapplicable to the subject. He noted that the subject displays several site and improvement characteristics which are substantially different from the Complainant's three market sale comparables. Factors such as building construction, site

coverage, age; finish; size; assessable building area; multi VS single building on one lot; and land adjustment for example, he considered all affect market value for these three properties.

[24] The Respondent noted that the Complainant's property comparable at 1826 - 25 AV NE for example, has two buildings onsite – unlike the subject's one building, and is at least 20 years older than the subject. He argued therefore that these three properties are not comparable to the subject, and hence the cap rate derived from analysis of their sales is not applicable to the subject. He also noted that the RealNet sheets for each sale, as provided by both the Respondent and the Complainant, identifies that the cap rate for each sale is "estimated", a key point which conveys uncertainty, and suggests that the indicated values may not be reliable.

[25] The Respondent also argued that in preparing his Income Approach calculations, the Complainant has mixed "actual" and "typical" values, which is an approach that is contrary to accepted appraisal practice. Therefore he argued, the results are considered to be unreliable.

[26] The Respondent provided a letter dated January 1, 2010 from Colliers International which identified that a professional "*valuation analysis in order to estimate its current market value.....as at December 31, 2010*" had been completed for a nearby Dundee industrial property at 2151 – 32 ST NE. The value of the adjacent site by Colliers was estimated to be $8,750,000 and current as of 6 months before the valuation date of July 1, 2011. He argued that because the buildings are of a similar age and exterior construction materials, this information in part, supports the assessment of the subject.

[27] The Respondent clarified that in order to test both the City's assessed value of the subject as obtained by the Cost Approach to Value, and the Complainant's Income Approach valuation, he had calculated a hypothetical "Income Approach to Value test". He argued that the test demonstrates that the Complainant's alternate calculations of value using his Income Approach are either incorrect, or, when calculated with more correct inputs, support the subject's assessment.

[28] The Respondent argued therefore that in his hypothetical Income Approach calculation, and based on the $12.50 per SF rent used by the Complainant and a 7% cap rate, the indicated value of the subject using this methodology was $5,159,000 which supports the City's "Costed" assessment of $5,280,000.

[29] The Respondent requested that the assessment be confirmed at $5,280,000.

Board Findings

[30] The Board finds that the subject has been assessed using the Cost Approach to Value methodology and not the Income Approach to Value methodology because according to the evidence adduced in this hearing, and contrary to the Complainant's assertions, the subject is a special purpose building.

[31] The Board finds that the Complainant provided insufficient argument and/or documented support for his alternate market sales evidence to refute or otherwise critique the six fully-adjusted market sale comparables used by the Respondent to value the land portion of the City's calculation of value for the subject. The Respondent's six property comparables support the land value portion of the assessment.

[32] The Board finds that the Complainant did not critique or otherwise challenge any portion of the Respondent's calculations of value for the improvements on the subject.

[33] The Board finds that the Income Approach to Value calculation prepared by the Complainant is flawed for three reasons:

1. the rent value of $12.50 per SF is a site-specific value and is not supported in any documentary form as being "typical" of comparable values in Sunridge.
2. the capitalization rate calculated at 7.5% by the Complainant, is based upon three "estimated" cap rates for properties which are much older than, and whose several individual characteristics are not comparable to the subject, and,
3. the Complainant has incorrectly inserted a mixture of "actual" and "typical" values in his calculations of alternate value, a procedure which is considered to be contrary to accepted appraisal practice and leads to unreliable results.

[34] The Board finds that CARB decision CARB 1191/2011-P provided by the Complainant relates to the subject's 2011 appeal wherein the assessment was confirmed. The variables used by the Complainant in that appeal were unsupported and the comparables used were not industrial warehouses. The Board garnered no direction from this decision.

[35] The Board finds that the Respondent's hypothetical "test" calculation of alternate value using the Income Approach, demonstrates support for the assessment.

[36] The Board finds that while it may have regard to previous CARB decisions, it is not bound by them and must decide the merits of this appeal on the basis of the evidence and argument provided at this hearing.

Board's Decision:

[37] The assessment is confirmed at $5,280,000.

DATED AT THE CITY OF CALGARY THIS 4 DAY OF SEPTEMBER 2012.

K. D. Kelly
Presiding Officer

APPENDIX "A"
DOCUMENTS PRESENTED AT THE HEARING AND CONSIDERED BY THE BOARD:

NO.	ITEM
1. C-1	Complainant Disclosure
2. R-1	Respondent Disclosure

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.*

For Administrative Use Only

Appeal Type	Property Type	Property Sub-type	Issue	Sub-Issue
CARB	industrial	Single-tenant	Market value	Income VS Cost Approach methodology