

**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:

***PFS Industrial One Inc. (as represented by Altus Group Limited), COMPLAINANT***

and

***The City Of Calgary, RESPONDENT***

before:

***K. D. Kelly, PRESIDING OFFICER***

***J. Massey, MEMBER***

***E. Bruton, 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:

<b>ROLL NUMBER:</b>	<b>201311156</b>
<b>LOCATION ADDRESS:</b>	<b>2820 Centre AV NE</b>
<b>HEARING NUMBER:</b>	<b>66651 (see also 66891)</b>
<b>ASSESSMENT:</b>	<b>\$824,000 (previously exempt portion)</b>

This complaint was heard on 12th day of October, 2012 at the office of the Assessment Review Board located at Floor Number 4, 1212 – 31 Avenue NE, Calgary, Alberta, Board 6.

Appeared on behalf of the Complainant:

- Ms. C. Van Staden – Altus Group Limited

Appeared on behalf of the Respondent:

- Ms. – K. Cody - Assessor – City of Calgary
- Ms. – M. Hartmann – 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] The following appeals were heard by the Board during the week of October 9 to 12, 2012 inclusive:

File No.	Decision No.	Roll No.	Address
68379	2063-2012-P	024008302	5225 – 8 ST NE
67719	2064-2012-P	054003991	2855T – 10 AV NE
66891	2065-2012-P	054006200	2820 – Centre AV NE
66893	2066-2012-P	054006606	404 Meridian RD NE
66896	2067-2012-P	054006754	315 Moraine RD NE
68215	2068-2012-P	054012505	2916 – 5 AV NE
66897	2069-2012-P	054012604	640 – 28 ST NE
67720	2070-2012-P	054013008	2915 – 10 AV NE
68038	2071-2012-P	054013107	3202 – 12 AV NE
68195	2085-2012-P	054014691	420 – 28 ST NE
68266	2086-2012-P	055124903	2020 Centre AV NE
66899	2087-2012-P	055162200	1880 Centre AV NE
68271	2088-2012-P	070033006	219 – 18 ST SE
68272	2089-2012-P	071043905	115 – 28 ST SE
66651	2090-2012-P	201311156	2820 – Centre AV NE

[3] **Common Issues:** All of the Board members named above attended all of the foregoing hearings throughout the week, and the Parties appearing before the Board during that time were represented by the same individuals noted above. Many of the issues, arguments, questions and responses were common throughout. At the request of the Parties and with the concurrence of the Board, those commonalities were carried forward from the hearing where they were first raised, to subsequent hearings without being restated in full in each hearing or in each written decision. The Parties selected file 68379 to be the “master” file upon which all common evidence and argument would be based and henceforth carried forward to subsequent files in turn.

[4] **S. 299. MGA:** In each of the complaints, the Complainant referenced information related to s. 299 of the Act. In each case – except one (file 66896) – the Complainant confirmed that there was no claim that the Respondent failed to produce the requested disclosures.

**Property Description and Background:**

[6] The subject is 6,175 of assessable space in a three-building – i.e. one single-tenant (IWS) and two multi-tenant industrial warehouses on 4.29 acres (Ac.) at 2820 Centre AV NE in the Meridian industrial area. All buildings were constructed in 1990 and are zoned I-G in the City's Land Use Bylaw. The buildings are arranged in a "horseshoe" shape on the site.

[6] The first building contains 16,499 square feet (SF) of multi-tenant assessable space; has 53% finish; and is assessed at \$131.42 per SF. The second building has 36,223 SF of single-tenant assessable space; 44% finish; and is assessed at \$106.19 per SF. The third building has 16,525 of multi-tenant space; 52% finish; and is assessed at \$131.25 per SF. All three buildings taken together, cover a total 35.89% of the site. The site also received a multi-building discount.

[7] The property was assessed using the Sales Comparison Approach to Value at \$8,183,636 at \$118.18 per SF. However, at the time of assessment a 6,175 SF portion of the site (the subject) was leased to Phoenix Home Schooling – an exempt entity. Therefore an exemption of \$824,000 was deducted from the overall assessed value, bringing the taxable assessment to \$7,350,000 which is the subject of companion file # 66891.

[8] Subsequently the exempt tenant departed the site (as confirmed by the Complainant) and an assessment of \$824,000 was issued for the 6,175 SF of space they had occupied. This is the subject of this appeal file # 66651 – a companion file to file # 66891. Since the parties requested that the evidence and argument from companion file # 66891 be carried forward and applied to this file, as a formerly-exempt 6,175 SF part of the three-building complex on this site, the Board has adopted and repeated the identical Decision Report format for the subject file # 66651.

**Issue:**

[9] What is the correct assessment for the subject when its 2012 assessed value is tested against selected valuation approaches and/or techniques?

**Complainant's Requested Value:**

[10] The Complainant requested the assessment be reduced from \$824,000 to \$636,000 based on the Sales Approach to Value.

**Board's Decision in Respect of Each Matter or Issue:****1. Equity Approach:**

[11] The Complainant provided ten assessment equity comparable properties and compared their individual characteristics to the subject. Six of the comparables were multi-building sites like the subject. The Complainant combined the individual building areas of the multi-building sites, and compared their total building areas and other site characteristics to the floor areas and site characteristics of single-building sites.

[12] The Complainant clarified that she had also made several land value, site cover, and age "adjustments" to the ten comparables, and she provided the Board and Respondent with verbal explanations but no written details of those calculations. She argued that she had conducted a "paired assessment analysis" of them. She also clarified that she had "backed out" and later "added back in" the land portion of the properties to help refine her calculations. The Complainant argued that based on her analysis, an equitable value for the overall site (subject and former exempt portion included) is \$108 per SF (\$7,455,252) and not the \$118 per SF assessed.

[13] The Respondent provided a total of nine assessment equity comparables to compare to each of the three buildings onsite – three comparables for the two smaller buildings, and six for the larger building. She argued that it is flawed methodology to combine the floor areas of multi-building sites – which receive a multi-building assessment discount, and compare the results to single-building sites which do not receive a discount.

[14] The Respondent clarified that her equity comparables were selected on the basis of land area; assessable building area; age; site coverage; and assessed rate per SF. She argued that the characteristics of the nine equity comparable properties closely match the subject's three buildings and support the assessment. She also argued that the Complainant's analysis of the Complainant's six equity comparables is flawed since the Complainant has not provided written documentation of how she adjusted her comparables. In addition the Respondent argued that the Complainant's technique of "backing out" the land value is not an acceptable practice under the legislated Mass Appraisal process used by the City to value properties for assessment purposes.

[15] In reviewing the issue of equity, the Board found that the Complainant had blended the building areas of multi-building properties and compared them to single building properties which is faulty methodology. The Board also found that the Complainant had not provided documented information to either the Board or the Respondent as to the former's adjustments, which, in concert with an unsupported land value calculation, meant that the Board placed little weight on the Complainant's calculations of value using this methodology. The Board accepted the Respondent's nine equity comparables as representative of equitable value for the subject.

## **2. Sales Comparison Approach:**

[16] The Complainant provided five sales comparables, four of which are single-building sites, and one is a multi-building site like the subject. The Complainant combined the assessable areas, and averaged other site characteristics, of her one multi-building comparable property sale, and compared the results to her other four single-building sales and the subject. The Complainant also combined the assessable areas of the three subject buildings, and proceeded to compare the combined data from the three buildings to her five sales comparables as noted.

[17] The Complainant argued that the "best" comparable to the subject is located at 700 – 33 ST NE. The Complainant argued that this single-building industrial facility has a similar assessable area, age of construction, and site coverage as the subject. She argued that these five sales support a lesser assessed value for the subject.

[18] The Complainant argued that she had made several "adjustments" to the five sales and provided the Board and Respondent with verbal explanations but no written details of those calculations. She clarified that by using a "residual land value" technique, she had "backed out" and later "added back in" the land portion of the properties to help refine her calculations since "land value is the biggest factor in overall value". She argued that by adjusting the "key factors" for each of her five market sales comparables, she concluded that a market sales approach value of \$636,000 is warranted for the subject.

[19] The Respondent provided a matrix containing details of the individual market sales of eight multi-building sites. She also provided a matrix of three market sales to compare to the large building onsite, each of which reasonably matched the individual site characteristics of assessable building area; age; finish; and site coverage. These time-adjusted sales demonstrated a range of values from \$100.10 to \$124.77 per SF.

[20] The Respondent also provided three sales to support the values placed on the two smaller buildings onsite. The three sales provided a range of values from \$124.77 to \$153.82 per SF. Since the subjects are assessed at \$131.42 and \$131.25 per SF based on the City's analysis of 164 property sales, she argued that these three sales provide a range of values that support the assessment.

[21] The Respondent argued that four of the Complainant's five sales are not comparable to the subject because they are single-building sites whereas the subject is a multi-building site receiving a multi-building discount to its assessed value. She argued that the Complainant has simply combined the separate and distinct building areas of the subject's three buildings, and compared the results to single-building sites. She noted that the Complainant has used the same technique on her first sale, a multi-building site at 1616 Meridian RD. Therefore she argued, not only is this flawed methodology, but this process skews the results of the Complainant's value analysis such that it is unreliable as an indicator of value.

[22] The Respondent also argued that the Complainant has used faulty methodology to make several "adjustments" to the Complainant's five sales. She argued that the Complainant has provided the Board and Respondent with verbal explanations but no written details of those calculations. She also argued that by using a "residual land value" technique, of "backing out" and later "adding back in" the land portion of the properties to refine her calculations is a flawed technique not used in Mass Appraisal.

[23] In its review of this issue, the Board found that the Complainant had blended the building areas of multi-building properties and compared them to single building properties which is faulty methodology. The Board also found that the Complainant had not informed either the Board or the Respondent as to the details of the former's market sales adjustments, which, in concert with the fact that four of the Complainant's five market sales are single-building sites and the subject is not, meant that the Board placed little weight on the Complainant's calculations of value using this methodology.

### 3. Assessment to Sale Ratio:

[24] The Complainant provided a critique of the City's assessment model, arguing that the "key factors" in it "do not work" and "do not explain what is going on with these properties" and hence it provides erroneous assessment values. She noted she had analyzed the City's list of 164 sales of industrial warehouse properties used in the model, to arrive at this conclusion. She provided the results of the analysis and calculations, illustrating the minimum, maximum, median and mean time-adjusted assessment to sales ratios. She identified the coefficients of dispersion and variation of these ratios. She argued that it is the position of the International Association of Assessing Officers (IAAO) that the overall ratios should not be greater than 5% but the City's model has exceeded that value.

[25] The Respondent noted that the Complainant had not provided the list of properties used in her analysis, nor had she provided the analysis itself, and therefore it was not possible to verify the Complainant's methodology or conclusions.

[26] The Board found that the Board in CARB 1825/2012-P, faced with a highly similar if not identical issue, concluded in paragraphs [10], [11], and [12] that:

[10]....."Without the analysis that supports the Complainant's conclusions, it is not possible to form an opinion on the results.

[11] In any event, it is not the Board's role to rule on the validity of the Respondent's asset range. *Matters Relating to Assessment and Taxation Regulation* AR 220/2004 MRAT), s.10 in particular, governs the quality standards and procedures established through the Alberta Assessment Quality Minister's Guidelines and s. 293 of the Act.

[12] The Complainant's position on the assessment to sales ratio carried little weight in the Board's deliberations on the merits of the Complaint."

[27] The Board also finds on the face of the evidence in this hearing that it places little weight on the Complainant's arguments regarding the alleged inaccuracy of the City's model, and the assessment to sale ratios derived therefrom.

#### 4. Cost Approach:

[28] The Complainant provided a "Summary Report" for each of the three buildings on the subject using Marshall and Swift (M&S). She also confirmed she had used \$800,000 per Ac. for the land. When combined with the calculations for the onsite improvements, the results indicated an overall value for the site's three buildings of \$8,081,579. She suggested that normally an M&S value would determine the higher end of a valuation range using a variety of valuation methodologies, and it did so in this instance.

[29] The Complainant argued that she had estimated the "effective age" of the three improvements at 11 years (as of July 1, 2011) because of their 1990 construction, and therefore she depreciated them by 9% based on a potential lifespan of 40 to 50 years. The Complainant advised that she had used other M&S valuation inputs for wall heights, HVAC, etc. based on typical components for a Storage Warehouse of the subject's era. The detail of the inputs and calculations were not provided.

[30] The Respondent argued that the Cost Approach To Value is generally used to assess "special purpose" buildings, and not typical multi or single warehouse properties such as the subject. She noted that the Complainant, while using Marshall and Swift, had identified two of the buildings on the site as "100% Storage Warehouse" and the third as "100% Office". Therefore, they are not special purpose buildings. In addition the Respondent argued that the Complainant's inputs and detailed calculations for M&S are not available, and therefore they cannot be evaluated by either the Respondent or the Board.

[31] The Board found that notwithstanding the lack of detail into the calculations used by the Complainant in this approach, it is not relevant to the site which is a typical 3-building industrial warehouse complex and not a special purpose building. Therefore the Board placed little weight on this approach.

#### 5. Capitalization Rate:

[32] The Complainant produced a cap rate study of industrial properties "over 100,000 SF- New Construction" and provided a table containing four market sales to support the results. She argued that Altus had used actual rents from leases in the four sites at time of sale, and a 4% vacancy (rounded down from average 4.6%) taken from third-party industry publications, to calculate median cap rates of 7.66% (stabilized NOI) and 7.47% (market NOI). She clarified that in certain instances where rents were unavailable, rents from other properties such as Calgary International Airport were used. She argued that Altus had concluded that 7.5% appeared to be a "reasonable cap rate for new, over 100,000 SF buildings."

[33] The Respondent argued that the Complainant's methodology is flawed because rents from Calgary International Airport Federal Government properties are significantly different than rents elsewhere in Calgary and should not be intermixed to arrive at valuation conclusions. In addition, in the Complainant's cap rate analysis, there is no allowance for expenses to be deducted which skews the results. She also argued that it is incorrect to analyze four new buildings of 302,135 SF; 146,135 SF; 178,009 SF; and 118,402 SF and then compare the results to the site's three-building total 69,247 SF.

[34] The Respondent provided several market sales of industrial properties as noted heretofore and argued that their individual characteristics of parcel size; assessable area; age; site cover; and time-adjusted sales values very closely matched the subject. She also provided nine assessment equity comparables and argued that their individual site characteristics also closely matched the subject and provide a range of values that support the assessment as fair and equitable. She argued that this evidence supports the assessment.

[35] In its review of the evidence on this issue, the Board found that it is not appropriate to compare rents from Calgary International Airport leased sites to other "freehold" property leases from off-airport sites. More significantly however, the Board found that comparisons of properties of well over 100,000 SF, and indeed in one instance over 300,000 SF, to the site's individual buildings of 16,499 SF; 16,525 SF; and 34,223 SF (three-building total of 69,247 SF) is, in the Board's view, unreliable. Therefore the Board placed little weight on the Complainant's evidence and argument in this issue.

#### **6. Income Approach:**

[36] The Complainant provided an Income Approach to Value calculation for the site using actual rents from the three subject buildings to define individual property values for each of them. She also clarified that she had used an elevated 7.75% cap rate instead of the 7.5% from the Altus cap rate study because she considered the subjects to be buildings with greater risk. She also used a 5% vacancy rate despite the Altus determination of 4.6% pursuant to third-party market studies, arguing that a small percentage change in a vacancy rate is immaterial. The Complainant argued that her Income calculations indicate an alternate value for the entire complex of \$7,402,286.

[37] The Respondent argued that there are 164 valid market sales which have been shared with the Complainant and therefore there is no need to value the subject using this methodology. She reminded the Board that the subject has been assessed using the Sales Comparison Approach and not the Income Approach. Moreover, she argued that in using the Income Approach, the Complainant's methodology is incorrect because there is no documented support for either the 5% vacancy rate or the 7.75% cap rate.

[38] In addition, the Respondent argued that while the Complainant has relied on third-party reports for her vacancy rate, the Altus-calculated value is 4.6% and not 5%. She argued that contrary to the assertions of the Complainant, a large or small difference in vacancy rates can be significant when calculating assessments.

[39] In its review of this issue, the Board found that there was no documented support for either the 5% vacancy rate or the 7.75% cap rate used in the Complainant's calculation of alternate value using this methodology. The Board placed little weight on the Complainant's evidence/argument in this approach.

#### **Board's Findings with Reasons:**

[40] The Board finds that with respect to equity, the Complainant was unable to document and support the several adjustments made to her ten comparable properties which raised considerable doubt as to their comparability to the subject. In addition the Complainant combined the individual building areas of the six multi-building sites, and compared their total building areas and other site characteristics to the floor areas and site characteristics of single-building sites. This is flawed methodology. The Respondent's nine equity comparables each displayed individual characteristics which when compared to the subject, support the assessment.

[41] The Board finds with respect to sales comparison, the Complainant's adjustments to her property comparables were not documented, which raised doubt about their comparability to the subject. In addition, four of the five Complainant's sales were all of single-building properties which the Complainant attempted to compare to the site's three-building composite values which is erroneous methodology. Therefore the Board afforded little weight to the Complainant's requested value under this approach.

[42] The Board finds that the Complainant was unable to convince the Board on the basis of the evidence and argument presented that the key variables in the City's assessment model are flawed.

[43] The Board finds that while certain documentary evidence as to the source of the inputs used by the Complainant to calculate the Cost Approach for the subject is lacking, nevertheless it recognizes that this approach is generally applied to "special purpose" buildings and not to typical multi-purpose warehouse properties like the subject. Therefore the Board finds that it gives very little weight to the Complainant's position on this issue.

[44] The Board finds that the Capitalization rate calculated by the Complainant on the basis of four relatively new buildings (as compared to the subject – a 1977 building) over 100,000 SF, to be flawed. The Complainant did not deduct any expense items, and used rents from Calgary International Airport instead of from off-airport properties to deduce values. Had expenses been deducted for example, one would expect the cap rate to be lower. In this regard, the following extract from *Westcoast Transmission Company Limited v. Assessor for Area 9 (Vancouver) 1987 BCSC 235* is relevant:

*"I stated above that the concepts used, in developing capitalization rates for application to the subject, should be used consistently. Thus it makes no sense to develop a capitalization rate on one set of assumptions about long-term vacancy rates, long-term rents, and long-term expenses, and then apply that rate to the income of the subject property that is not derived in the same way.*

*The choice of a vacancy rate goes directly into the calculation of gross income, from which the appraiser then deducts expenses to arrive at an estimate of net income. All of these factors, for consistency, should be used in the same manner as they were used in the study of comparables which resulted in the development of the capitalization rate. To do otherwise is to offend appraisal theory, and is likely to produce a mistaken result."*


[45] The Board finds that the Complainant's income approach is unreliable because the vacancy rate of 5% and cap rate of 7.75% used in the Complainant's calculation are unsupported. The foregoing therefore casts doubt on the reliability of the alternate assessment value the Complainant seeks for the subject using this methodology.

[46] The Board concurs with the Respondent that the assessment of \$824,000 is fair and equitable.

**Board's Decision:**

[47] The assessment is confirmed at \$824,000.

DATED AT THE CITY OF CALGARY THIS 13<sup>th</sup> DAY OF November 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. C-2	Complainant Disclosure – Rebuttal
3. 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.*
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For Administrative Use Only

Appeal Type	Property Type	Property Sub-type	Issue	Sub-Issue
CARB	industrial	Single tenant portion of three- building warehouse	Market value	sales; equity; cost approach; income; cap rate;