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:

Safeway Holdings (Alberta) Ltd. (as represented by MNP LLP), COMPLAINANT

and

The City Of Calgary, RESPONDENT

before:

W. Kipp, PRESIDING OFFICER
H. Ang, BOARD MEMBER
R. Cochrane, 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 2013 Assessment Roll as follows:

ROLL NUMBER:	**024006314**
LOCATION ADDRESS:	**838 – 55 Avenue NE, Calgary AB**
FILE NUMBER:	**71006**
ASSESSMENT:	**$4,000,000**

This complaint was heard on the 8th day of August, 2013 at the office of the Assessment Review Board located at Floor Number 3, 1212 – 31 Avenue NE, Calgary, Alberta, Boardroom 8.

Appeared on behalf of the Complainant:

- *J. Langelaar*

Appeared on behalf of the Respondent:

- *G. Foty*

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

[1] There were no preliminary procedural or jurisdictional matters to be decided.

Property Description:

[2] The property that is the subject of this assessment complaint is a two building single-tenant light industrial property located on a 2.06567 acre lot in Skyline East Industrial park in northeast Calgary. There are two main buildings, built in 1979 and 1995. There is also an 875 square foot "outbuilding." The larger of the main buildings has footprint and assessable area of 31,354 square feet. The smaller building has a footprint and assessable area of 1,320 square feet. The larger building has interior finish in 16 percent of its area. There is no finish in the smaller building. The combined building area represents a site coverage ratio of 36.31 percent.

[3] Industrial properties such as this are assessed using a sales comparison approach. Multi-building properties are assessed by comparing each building separately to single building properties where the building size is similar and the site coverage ratio is similar to the overall ratio for the subject property. By this comparison process, rates per square foot of building area were determined and applied.

Building A:	31,354 Sq. Ft.	$117.03 per square foot
Building B:	1,320 Sq. Ft.	$246.72 per square foot

A multi-building adjustment factor is applied to recognize that multi-building properties trade in a different manner to single building properties. The Respondent would not disclose the actual coefficient that is applied. Outbuildings are assessed at a flat rate of $10 per square foot. After application of the multi-building coefficient, the total property assessment of $4,000,000 indicates a blended rate of $119.35 per square foot of the aggregate assessable floor area of all buildings.

Issues:

[4] In the Assessment Review Board Complaint form, filed March 1, 2013, Section 4 – Complaint Information had a check mark in the box for #3 "Assessment amount".

[5] In Section 5 – Reason(s) for Complaint, the Complainant stated that the assessment

amount is incorrect. Several grounds for the allegation were set out.

[6] At the hearing, the Complainant pursued the following issues:

1) Is an assessment increase of 24.5 percent from 2012 to 2013 reasonable?
2) Is the overall assessment rate of $119.35 per square foot of building area correct or should it be reduced? Should the smaller building, which is unique, be valued by the income approach, the cost approach or should it be treated as equal to the larger adjoining building?
3) What is the appropriate time adjustment to reflect market changes over the sales analysis period ending on July 1, 2012?

Complainant's Requested Value: Any one of: $3,390,000 or $3,450,000 or $3,500,000 depending on options in paragraph [6] 2) above

Board's Decision:

[7] The Board reduces the assessment to $3,590,000.

Position of the Parties

Complainant's Position:

[8] The Complainant pointed out that the assessment had increased by 24.5 percent from 2012 to 2013. There was no evidence to show that this increase was excessive and there was no alternative rate of increase proposed.

[9] There is no concern about the $10 per square foot rate applied to the outbuilding. The complaint is against the $117.03 per square foot rate applied to Building "A" and the $246.72 per square foot rate applied to Building "B". Building "B" is clearly not of the same quality as the larger building. It rests upon an elevated type of deck. It has a plain exterior with no windows and just one garage style door. It has a sloped shed style roof. Its wall height is lower than that of the larger building.

[10] The Complainant argued that the assessment of Building "B" could be prepared by: 1) the income approach with a $3.00 per square foot rent, 8.0 percent vacancy and 6.0 percent capitalization rate (value = $30,000); 2) the cost approach using an acceptable cost manual such as Marshall & Swift (value = $85,141); or, 3) by assigning it the same rate per square foot as is applied to Building "A" (value = $124,080).

[11] For Building "A", details of five northeast Calgary industrial property sales were set out in a grid. The properties sold between the dates of October 1, 2010 and February 28, 2012 at prices from $79 to $129 per square foot of building area. Buildings ranged in size from 19,978 to 41,376 per square foot. The years of construction were from 1972 to 1981 and site coverage ratios ranged from 31.1 to 49.6 percent. For the initial analysis, time adjustments were not applied to sales prices.

[12] In rebuttal, the Complainant made adjustments for market changes over time. The Respondent had developed a time adjustment trend line that segregated adjustments over four

trend periods of time from July 2009 to July 2012. The fourth time period had a 0.0 percent adjustment in the Respondent's analysis. The Complainant accepted and adopted the Respondent's time adjustment rates for the first three time periods. With zero percent change in the fourth trend period, the net effect of the Respondent's time adjustments was a 3.832 percent increase. The Complainant observed a downward slope to the trend line for the fourth period. To account for this, the Complainant applied a decrease of 3.832 percent to the fourth period. Notwithstanding that the Complainant adopted the Respondent's time adjustment factors for the first three trend periods, it questioned the methodology of relying on sales to assessment ratios as well as the types of property sales that went into development of the trend line. For example, from the Respondent's list of industrial property sales (warehouse, condominium and land), the Complainant pointed out that a November 28, 2011 warehouse sale had no time adjustment applied but another warehouse that sold the next day, on November 29, 2011, was adjusted upwards by 1.57 percent. Further, an industrial condominium sale that occurred November 28, 2011 was adjusted upwards by 3.25 percent while a land sale that occurred that same day was adjusted upwards by 5.76 percent.

[13] Also in rebuttal, the Complainant removed one of the comparable sales because it was rejected by the Respondent as being a non-arm's length sale. One of the sales relied upon by the Respondent was added to the Complainant's analysis even though it is felt that the property is not similar to the subject in respect of location, building size and date of sale (December 2009). From the five sales, the time adjusted price range is from $78.34 to $158.56 per square foot and the median is $107.35 per square foot.

[14] Rental evidence shows that the entire property is leased to a single tenant and there is no lease rate being applied to Building "B". The current tenant had taken possession of the property prior to construction of that building. An investor looking to acquire the property would attribute the same rental rate to each of the main buildings. The City of Calgary business assessment of the property applies the same rent rate to the small building as is applied to the larger building. This is further indication that at best, the lesser building is only as valuable as the larger one.

[15] A nearby class "A" office building, which is assessed using an income approach, is assessed at a lower rate per square foot than the subject smaller building. That office building has some outbuildings that are considered to be storage buildings. The subject Building "B" is definitely atypical of industrial buildings which suggests that the most accurate assessment would come from application of the cost approach.

Respondent's Position:

[16] The time adjustment analysis undertaken by the Respondent covers the time period from July 2009 to June 2012. A trend line was developed from plotting the results from a multiple regression analysis of Sale to Assessment ratios based on the 2012 assessments of properties that sold during the time period. The graphical presentation shows:

From July 2009 to May 2010 (11 months)	- 0.7912 percent per month
From June 2010 to March 2011 (10 months)	0.0 percent per month
From April 2011 to November 2011 (8 months)	+1.5669 percent per month
From December 2011 to June 2012 (7 months)	0.0 percent per month

Only these results of the analysis are provided in evidence. Details were not provided in evidence or at the hearing.

[17] The Respondent argues that multi-building properties must be assessed by valuing each building separately. The reasoning behind this argument is that these types of properties sell in the marketplace on a different basis than single building properties. The total cost of two buildings is greater than the cost of a single building with the same floor area. Each building is valued by comparison to single building properties with similar characteristics and then a multi-building coefficient is applied to recognize that the second building cannot be subdivided off of the property and sold separately. The Respondent is consistent in the application of this process to all multi-building properties.

[18] Details of two multi-building property sales are set out in evidence. Two properties in South Airways in northeast Calgary sold at $101.17 per square foot (total building area of 48,660 square feet and a 36.46 percent site coverage ratio) and at $139.94 per square foot (total building area 35,200 square feet and a 46.7 percent site coverage ratio).

[19] The Respondent also sets out sales and characteristics data for eight single building properties that can be compared to the larger building on the subject. Five of these properties are in northeast Calgary industrial areas and the other three are in the southeast. Data on eight other sales supports the assessed value of the lesser building. For the large building, the median of the time adjusted sales prices is $129.48 per square foot of building and for the lesser building, the median is $248.19 per square foot.

[20] There were charts of data to show that the assessment of each of the subject buildings is equitable to assessments of other similar buildings. The Complainant did not raise equity as an issue so the Board did not require details of this data.

Board's Reasons for Decision:

[21] During the presentation of evidence, it was found that the floor area of two of the Complainant's comparables were different than the areas reported by the Respondent (one by 849 square feet and one by 1,776 square feet). The Complainant had obtained the areas from the Property Assessment Detail Reports (PADR) that are published on the City of Calgary website. The Respondent informed the Board that building area data on the PADR's is frequently wrong. The Respondent relies upon the area shown on the Assessment Explanation Supplement, a document that is not available to the public and is only made available to a taxpayer upon request. The Board is concerned that the City of Calgary Assessment Business Unit continues to make its website compilation of PADR's available to taxpayers when it has been known for quite some time (years?) that many of those summary reports are inaccurate, particularly when it comes to building floor areas. Taxpayers will access that information and rely upon it thinking that the City would only publish correct data. Considerable Assessment Review Board hearing time could be saved if the City either corrected the data or removed it entirely until such time as only correct information can be made available.

[22] The Respondent explained that the time adjustment was calculated by multiple regression analysis of sales to assessment ratios. While the outcome was presented to the Board, the Respondent would not reveal the complete analysis. The Board does not understand the significance of sales to assessment ratios in determining a time adjustment. In many instances, time adjustment factors are derived from comparison of actual sale prices. This is a more understandable process. Nor does the Board fully comprehend the Complainant's attempts to expand the adjustment to a negative factor during the fourth trend period by the production of a straight trend line. The Board did accept the Respondent's time adjustment because both parties relied upon the first three trend periods. There was no market support for the Complainant's extension of the time adjustment factors for the fourth period.

[23] Having regard to the 24.5 percent year over year change in assessments, there was no market evidence to suggest what a proper rate of change should be. Nevertheless, the Board will not adjust assessments solely on the basis of year over year changes.

[24] The method of valuing multi-building properties has been addressed by several CARB's over the past several years and decisions have varied. In most instances, multi-building properties are unable to be subdivided and the buildings sold separately. When a single site operated as an investment property contains a number of similar buildings, those buildings will attract similar rents. An investor in the marketplace would consider the total floor area of the buildings to determine the potential income. The property would sell as a single property. In the subject instance, the property descriptions provided to the Board suggest that the two main buildings are not similar in all respects; however, they are apparently occupied by the same tenant and a single rent rate is applied for the whole property.

[25] The Board finds that this is a single property and its assessment should be completed on a consistent basis. While the smaller building may be atypical, that does not suggest that the cost approach should be applied to the whole property and it would not be reasonable to attempt to add some value for a small building based on its cost while valuing the remainder of the property by sales comparison. The same reasoning applies to the income approach. In Calgary, industrial properties are assessed using a sales comparison approach. The subject property, even though it comprises buildings of somewhat different size and character, should be valued by that method. The Board finds the Complainant's sales to be most comparable but it applies the Respondent's time adjustments to those sales.

[26] The Board is satisfied that the five sales in the Complainant's final analysis have comparable qualities and characteristics to the subject. With a time adjustment (using the Respondent's rates) applied to the first sale (3651 – 21 Street NE) in the list on page 5 of Exhibit C2, a median of $109.78 per square foot is indicated. When applied to the building area of the two main buildings on the subject property and with the outbuilding added at its $10 per square foot rate, the reduced assessment is $3,590,000 (truncated). No multi-building adjustment is necessary.

DATED AT THE CITY OF CALGARY THIS 11th **DAY OF** September, **2013.**

W. Kipp

W. Kipp

Presiding Officer

APPENDIX "A"

DOCUMENTS PRESENTED AT THE HEARING AND CONSIDERED BY THE BOARD:

NO.	ITEM
1. C1	Complainant Disclosure
2. R1	Respondent Disclosure
3. C2	Complainant 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.

For Internal Use

Appeal Type	Property Type	Property Sub-Type	Issue	Sub-Issue
CARB	WAREHOUSE	MULTI-TENANT	SALES APPROACH	IMPROVEMENT COMPARABLES