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:

London Life Assurance Company, The Great West Life Insurance Company (as represented by Altus Group Limited), COMPLAINANT

and

The City Of Calgary, RESPONDENT

before:

H. Kim, PRESIDING OFFICER
Y. Nesry, BOARD MEMBER
A. Wong, 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:	**201181732**
LOCATION ADDRESS:	**58 Aero Dr NE**
FILE NUMBER:	**72814**
ASSESSMENT:	**$14,230,000**

This complaint was heard on the 28th of October, 2013 at the office of the Assessment Review Board located at Floor Number 4, 1212 – 31 Avenue NE, Calgary, Alberta, Boardroom 4.

Appeared on behalf of the Complainant:

- *D. Chabot, Altus Group Limited*

Appeared on behalf of the Respondent:

- *K. Buckry, Assessor*

Property Description:

[1] The subject is an airside warehouse at the Calgary International Airport (YYC). It is one of a five-warehouse development constructed in 2008. The five buildings are on three parcels of land leased from the Calgary Airport Authority and were purchased as a package by the current owners in January 2011 for a total sale price of $54,900,000. The assessment is based on the fee simple value of the land and improvement using the income approach to value. The warehouse is assessed as Industrial Multi Tenant Large Bay with 140,000 rentable square feet at $7.50/sf. Typical vacancy and nonrecoverables of 6.5% are deducted to arrive at a net operating income (NOI) of $960,750 which is capitalized at 6.75% to arrive at a value of $14,233,333 which, truncated, results in the assessment under complaint.

Issues:

[2] The Complaint form identified a number of reasons for complaint; however at the hearing the only issue argued was whether the rental rate should be reduced from $7.50/sf to $6.50/sf to reflect recent leases.

Complainant's Requested Value: **$12,290,000**

Board's Decision:

[3] The assessment is reduced to $12,290,000

<u>Issue – Rental Rate:</u>

Complainant's Position:

[4] The Complainant stated that the subject building had chronic vacancy issues since construction. The other four buildings had not had the same problem, and it was not known why this one was suffering, but other than one space that was rented in June 2008 the balance of the building, representing 74% of the rentable area, had not been leased since the shell was completed in early 2007 despite active marketing. Copies of marketing materials in 2010 showed the spaces had been offered for lease at a range of $6.35 for 100,000 sf to $6.80/sf for 31,250 sf. An email from the owner confirmed that they had unsuccessfully bid for a 60,000 sf requirement in May 2010 at $5/sf; the successful bid was $4.50/sf in the Stoney district. A January 2010 email stated that the asking lease rates have continued to decline in the past 18 months: from $6.50-$6.75 in July 2008 to $6-$6.50 in July 2009. The email stated that current asking was $5/sf with six months free rent, or any reasonable offer.

[5] In previous years, the Board had granted allowances for the abnormal chronic vacancy in the subject building. In CARB 2158/2010-P, the Board granted a 25% vacancy allowance in 2010 instead of the 5.25% typical. In CARB 2631-2011-P the Board also determined that a 25%

vacancy allowance should be applied for 2011 instead of the 9.25% typical.

[6] In May 2011, 50,750 sf was leased at $5.85/sf, and in November 2012, 50,899 sf was leased at $7/sf. The building is now fully leased; however the rental rate is substantially less than the typical rate applied by the Respondent. A rate of $6.50 should be applied to recognize the current market leases, which average $6.43/sf. This is the rate that could be achieved after years of chronic vacancy and it reflects market rates for the subject property.

Respondent's Position:

[7] The subject is assessed using the Large Bay warehouse rate of $7.50/sf, compared to the $8.25/sf Small Bay rate. The Respondent could not specifically recall the break point between Large and Small Bay sizes, but thought it was 22,000 to 25,000 sf. The other four buildings in the development are on two parcels with two buildings each. The first is immediately to the east of the subject with an 111,937 sf Large Bay warehouse that has airside access like the subject, and an 83,535 sf Small Bay warehouse fronting Aero Drive NE. The second is on the south side of Aero Drive NE with two Small Bay warehouses of 65,128 sf and 101,729 sf each with Aero Drive frontage, and rear exposure but no access to 11 St NE. The Respondent presented the Property Assessment Explanation Summary (AES) for the two properties to show their assessments are $20,740,000 and $18,690,000 respectively.

[8] The Respondent presented an analysis of the January 2011 sale price. Applying the 2012 typical parameters, the assessed value was $55,173,141 compared to the sale price of $54,900,000 or an assessment to sale ratio (ASR) of 100.5%. In contrast, using actual rent and vacancy but with typical rates for other parameters, the assessed value would be $54,175,479 or an ASR of 98.7%. Finally, using typical parameters but 25% for vacancy, the assessed value would be $54,044,067 or an ASR of 98.4%. Clearly, applying the typical parameters provides the better ASR.

[9] The Respondent presented a marketing document for the subject property. It was undated but offered by GWL, the current owners. It showed the asking lease rate for 50,900 sf was $7.50/sf and supports the assessed rate of $7.50/sf. Further, the first lease from 2008 was for $12.32/sf and this lease ends in 2018, later than either of the more recent leases. The weighted average of the three leases that are in place for the subject building is $8.04/sf and also supports the assessed rate.

Complainant's Rebuttal:

[10] The Complainant disputed the consideration of the dated lease. The Complainant presented appraisal references, including an excerpt from the *Alberta Assessors' Association Valuation Guide* which discusses determining market rents as of the valuation date, and provides guidelines that the best evidence of market rents are actual leases signed on or around the valuation date, and actual leases within the first three years of their term as of the valuation date. The 2008 lease at $12.32 is five years into its term and should not be considered in determining the market rent for the subject.

[11] Submissions from the Respondent at other hearings stated:

> Older information would be given less consideration in a market transaction. What occurs in the market place is the same methodology employed by the Assessment Business Unit to determine typical rent rates.

Many proceedings dealt with whether current market activity at the valuation date should be considered over more dated information. The Complainant presented an excerpt from the Respondent's evidence at a previous hearing where the Respondent quoted a dozen CARB decisions all stating that the most recent leases at the valuation date should be considered. The most recent leases support a rate of $6.50/sf.

Findings and Reasons:

[12] The Board considered evidence of chronic vacancy and the lease rates ultimately achieved in the subject building and noted that the subject had very large bay sizes with a minimum range of 31,250 and 50,000 sf. From the aerial photograph, it appeared that the other four buildings, which had not experienced the chronic vacancy issues of the subject, had more flexibility in the potential bay sizes. The Board noted that the Respondent only applies two rates for Large and Small Bay warehouses, and considers that the very large bay sizes in the subject may be atypical and contributed to the length of time it took to lease, as well as the lower than typical lease rate achieved.

[13] With respect to the Respondent's analysis of the sale price, the Board notes that the value attributable to the subject building in each of the reduced value analyses is less than the requested assessment. The difference between ASRs of 98.4%, 98.7% and 100.5% is not substantial and all three would be considered a very good result.

[14] Accordingly, the Board determined that a $6.50/sf rate is reasonable and appropriate for the very large bay sizes of the subject.

DATED AT THE CITY OF CALGARY THIS 19th DAY OF November 2013.

H. Kim
Presiding Officer

APPENDIX "A"

DOCUMENTS PRESENTED AT THE HEARING AND CONSIDERED BY THE BOARD:

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

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Property Type	Property Sub-Type	Issue	Sub-Issues
(4) Warehouse	Warehouse Multi Tenant	Income Approach	Net Market Rent