EDMONTON
Assessment Review Board

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NOTICE OF DECISION NO. 0098 139/12

Altus Group
780-10180 101 Street NW
Edmonton, AB T5J 3S4

The City of Edmonton
Assessment and Taxation Branch
600 Chancery Hall
3 Sir Winston Churchill Square
Edmonton AB T5J 2C3

This is a decision of the Composite Assessment Review Board (CARB) from a hearing held on July 18, 2012, respecting a complaint for:

Roll Number	**Municipal Address**	**Legal Description**	**Assessed Value**	**Assessment Type**	**Assessment Notice for:**
10037164	18420 118A Avenue NW	Plan: 0523622 Block: 1 Lot: 2A	$3,501,000	Annual New	2012

This decision may be appealed to the Court of Queen's Bench on a question of law or jurisdiction, pursuant to Section 470(1) of the Municipal Government Act, RSA 2000, c M-26.

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cc: MANCAL PROPERTY INVESTMENTS INC

Edmonton Composite Assessment Review Board

Citation: Altus Group v The City of Edmonton, 2012 ECARB 000870

Assessment Roll Number:	10037164
Municipal Address:	18420 118A Avenue NW
Assessment Year:	2012
Assessment Type:	Annual New

Between:

Altus Group

Complainant

and

The City of Edmonton, Assessment and Taxation Branch

Respondent

DECISION OF
John Noonan, Presiding Officer
Jack Jones, Board Member
Pam Gill, Board Member

Background

[1] The subject property is a 15,420 square foot medium warehouse built in 1998, located in the White Industrial subdivision in the City of Edmonton with 9% site coverage. The 2012 assessment was prepared by the direct sales comparison approach utilizing sales occurring from January 2008 through June 2011.

Issues

[2] The complaint form listed seventeen reasons for complaint. At the hearing, the Board heard evidence and argument on the following three issues:

1. Is the value concluded from the Complainant's Income Proforma a better indicator of market value than the assessment?

2. Do the sales comparables suggest that the subject property is assessed greater than its market value?

3. Is the subject assessed equitably?

Legislation

[3] The *Municipal Government Act* reads:

***Municipal Government Act*, RSA 2000, c M-26**

s 467(1) An assessment review board may, with respect to any matter referred to in section 460(5), make a change to an assessment roll or tax roll or decide that no change is required.

s 467(3) An assessment review board must not alter any assessment that is fair and equitable, taking into consideration

a) the valuation and other standards set out in the regulations,

b) the procedures set out in the regulations, and

c) the assessments of similar property or businesses in the same municipality.

Position Of The Complainant

[4] The Complainant presented evidence (C-1) and argument for the Board's review and consideration.

[5] The Complainant argued that the subject is over assessed based on the income approach, the sales approach, and equity.

[6] The Complainant tested the assessment by preparing an income approach proforma (C-1, page 9) for the subject property. A lease rate of $7.75 per sq.ft. was attributed to the subject's 13,760 sq.ft. of main floor area and $4.75 per sq.ft. to 1,660 sq.ft to the upper floor area of leasable area. Income deductions of 3% for vacancy and 2% for structural were applied. The resulting net operating income was capitalized at 7.25% to generate a value estimate of $1,548,732. An excess land adjustment was also made in the amount of $1,397,027. Adding these two components of value, a rounded result of $2,945,500 was determined as compared to the assessed value of $3,501,000.

[7] Nine industrial leases in the White Industrial area (C-1, pages 19-29) were listed for comparison. The leases ranged from $7.00 to $8.50 per sq.ft. with an average of $7.81 per sq.ft. and a median of $7.75 per sq.ft. A rate of $7.75 had been applied in the income proforma.

[8] The Complainant noted that the amount of office finish in the leased premises seemed to have little impact on the lease rate, and as well, the leases were drawn from a mixture of single and multi-building developments, again with no apparent influence on lease rates. Further support for the income proforma parameters was presented in third party reports for Q2 2011 from Colliers, CBRE, and Avison Young. These showed the $7.75 lease rate was fair, as were the vacancy and capitalization rates. The Complainant calculated the excess land adjustment by multiplying the building footprint of 13,760 sq.ft. by 3 to find a lot size with typical site coverage, 41,280 sq.ft. Subtracting that typical lot from the actual size of 155,000 yielded excess land of 114,043 sq.ft, which was valued at $12.25 per sq.ft. or $533,610 per acre. The $12.25 per sq.ft. was derived from the average of seven NW land sales. The income approach plus the

excess land adjustment determined a value for the subject of $165.29 per sq.ft. as compared to assessed value of $196.46 per sq.ft.

[9] The Complainant noted that the City's law and legislation brief referred to the valuation methods available for mass appraisal: the cost approach, direct sales comparison, and the income approach. In support of the choice of the direct sales comparison approach, the City materials quote from the 2002 edition of the *Standard on Mass Appraisal of Real Property* published by the International Association of Assessing Officers (IAAO). However, the Complainant pointed out that this text had been revised and the new 2012 edition stated, "The income approach is the most appropriate method to apply when valuing commercial and industrial property if sufficient income data are available". The Complainant took the position that ample income data are available for valuation purposes but the City chose not to collect this information, preferring the sales comparison approach which the new text from IAAO now ranks as the third best valuation method of the three approaches.

[10] The Complainant provided five sales comparisons (C-1, page 11) for the Board's review that were $182.07 per sq.ft, $147.99 per sq.ft., $117.59 per sq.ft., $177.40 per sq.ft., and $97.94 per sq.ft. The Complainant argued that $180.00 per sq.ft resulting in a value of $2,775,500 would be a fair valuation due to the attributes with respect to age, size, location, and site coverage.

[11] The Complainant further produced five equity comparables (C-1, page 12) that were $170.93 per sq.ft, $186.09 per sq.ft, $191.84 per sq.ft, $185.70 per sq.ft. and $185.49 per sq.ft. Based on the attributes of the subject such as age, location and site coverage, the Complainant argued that $185 per sq.ft. would be an equitable value for the subject: $2,852,500.

[12] Upon questioning, the Complainant submitted that all three values derived using the income, sales, and equity approach were equally before the Board for consideration. All three valuations produced results lower than the assessment. However, the sales comparison approach yielded the lowest value, $2,775,500, and was the basis of the requested assessment.

<u>Position Of The Respondent</u>

[13] The Respondent presented evidence (R-1 and R-2) and argument for the Board's review and consideration.

[14] The Respondent asked the Board to place no weight on the Complainant's income approach test for lack of sufficient detailed information. In the City's view, the vacancy, structural allowance, and cap rate employed were just market averages, and the lease information presented couldn't be verified by the City as to accuracy and completeness. The City had foregone the annual Request for Information process for the industrial inventory for the last few years as a good many industrial properties were owner-occupied. Consequently, there was no leasing information to be had from a large swath of the industrial sector. This information void was one of the reasons the City had decided to use the direct sales comparison approach for the industrial inventory.

[15] With regard to the new text from the IAAO publication, the Respondent noted that the sentence following the one quoted by the Complainant reads, "Direct sales comparison models can be equally effective in large jurisdictions with sufficient sales".

[16] The Respondent produced six sales comparables (R-1, page 13) that ranged from $199.45 per sq.ft to $247.79 per sq.ft. The subject is assessed at $227.06 per sq.ft., well within the range supported by the sales. It was noted that sale #3 (R-1, page 13) was common to both parties.

[17] The Respondent also provided 8 equity comparables (R-1, page 20) ranging from $193 per sq.ft. to $269.29 per sq.ft. Based on these comparables, it was submitted that the subject property was equitably assessed at $227.06 per sq.ft.

[18] The Respondent raised some concern with respect to the comparables provided by the Complainant. One of the sales at $97.94 per sq.ft (C-1, page 11, #5) is located in the less desirable neighbourhood of Mistatim; this building is undergoing extensive renovations, which may have contributed to a lower sale price. The comparable at $117.59 (C-1, page 11, #3) may have included a canopied area in the total building area calculation.

[19] In summary, the Respondent requested the 2012 assessment of the subject property be confirmed at 3,501,000.

Decision

[20] The Board reduces the assessment to $3,152,500.

Reasons For The Decision

ISSUE 1: Is the value concluded from the Complainant's Income Proforma a better indicator of market value than the assessment?

[21] With regard to the valuation methods and their preferred ranking by the IAAO, the Board takes no position. Neither the *Act* nor the *Regulation* specifies the valuation method to be used in preparing an assessment, implicitly leaving that decision in the hands of the assessor. There is no issue to be decided. The Board is interested in seeing that a complained assessment is a fair and equitable estimate of market value, no matter how that estimate was derived.

[22] While the assessment was prepared by the direct sales comparison method, testing that assessment by another valuation method is fair game. The income approach parameters used by the Complainant appear reasonable enough at first glance. The Board understands the Complainant is trying to show how the property would be valued using typical market inputs for lease rates, vacancy, and cap rate. The difficulty with the income proforma calculated by the Complainant is the implication that all similar industrial properties in the NW quadrant should be valued with these exact same income approach parameters, but without the benefit of testing the results against real world sales. In short, what is proposed is a different model which might appear reasonable, or even very reasonable, but bereft of audited validation. While one might not quibble with a vacancy rate of 3% when various third party industry watchers report rates of 2.2%, 3.2% and 2.9%, the greater difficulty is an appropriate cap rate. Here, the Complainant chose to apply 7.25% and supported that with, among other information, a Q2 2011 Colliers report showing an Edmonton range of 6.75%-7.75% for multi-tenant "B" properties and 6.5%-7.5% for single-tenant "A" properties. The Board observes that a cap rate change of as little as ¼% can have a big impact on the calculated value. Further complicating matters is the recurring question of how a cap rate was derived – was it determined using the actual incomes of properties that sold, or estimates of typical income?

[23] The Board finds that the proforma capitalized income valuation presented by the Complainant can only be used as a rough guide to estimated value. By itself, that value estimate is insufficient to convince the Board that the subject property is over-assessed and that a reduction is warranted.

ISSUE 2: Do the sales comparable suggest that the subject property is assessed at greater than its market value?

[24] After careful examination of the evidence the Board found only three sales (C-1, page 11, #1 and #4; R-1, page 13, #2) to be the most comparable to the subject in terms of size, site coverage, and location. The threes sales at $182.07 per sq.ft., $177.40 per sq.ft. and $208.40 per sq.ft. averaged $189.29 per sq.ft.

[25] The Board found the assessed value of the subject at $227.04 per sq.ft is significantly higher than what the market would indicate at $189.29 per sq.ft.

[26] The Board finds that the three most similar sales comparables suggest that the subject is assessed at greater than its market value.

ISSUE 3: Is the subject assessed equitably?

[27] The Board examined the equity comparables provided by both parties and determined that these comparables provided a better guide to value than did the sales, due to their closer similarity to the subject in terms of lot size, age, and site coverage.

[28] The Board found three equity comparables (C-1, page 12, #2; R-1, page 20, #6 and #7) to be the best indicators of value at 186.09 per sq.ft., $195.46 per sq.ft. and $231.85 per sq.ft. The average of the three comparables is $204.46 per sq.ft.

[29] The Board applied a revised unit value of $204.46 to the subject building area of 15,419 square feet to arrive at a revised 2012 assessment of $3,152,500.

[30] The Board finds that the revised 2012 assessment of the subject property at $3,152,500 is fair and equitable.

Heard July 18, 2012.
Dated this 16th day of August, 2012, at the City of Edmonton, Alberta.

John Noonan, Presiding Officer

Appearances:

Walid Melhem, Altus Group
for the Complainant

Suzanne Magdiak, City of Edmonton
for the Respondent