EDMONTON
Assessment Review Board

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NOTICE OF DECISION NO. 0098 142/12

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 17, 2012, respecting a complaint for:

Roll Number	**Municipal Address**	**Legal Description**	**Assessed Value**	**Assessment Type**	**Assessment Notice for:**
1555275	10707 178 Street NW	Plan: 7721110 Block: 8 Lot: 15	$3,345,000	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.

cc: YORK REALTY INC

Edmonton Composite Assessment Review Board

Citation: Altus Group v The City of Edmonton, 2012 ECARB 001036

Assessment Roll Number:	1555275
Municipal Address:	10707 178 Street 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

Procedural Matters

[1] Upon questioning by the Presiding Officer, the parties before the Board indicated no objection to the Board's composition. In addition, the Board Members indicated no bias with respect to this file. Triathlon

Background

[2] The subject property is an average condition industrial warehouse, built in 1991 in the McNamara Industrial neighborhood. It has 24,427 square feet of main floor area of which 7,141 is office space. The subject property has site coverage of 28% and has been assessed for 2012 utilizing the direct sales comparison approach to valuation based on sales occurring between January 2008 and June 2011. The subject property has been assessed with the attribute of being located on a major roadway.

Issue(s)

[3] The complaint form listed fourteen issues for complaint, however at the hearing the Complainant presented evidence and argument on the following issues:

1. Is the subject over-assessed in view of a capitalized income proforma that indicates a value of $2,482,000?

2. Is the subject over-assessed in comparison to sale comparables which suggest a value of $2,491,500?

3. Is the subject over-assessed in view of an appraisal report that values the subject property at $2,700,000 or time adjusted to $2,620,000?

Legislation

[4] 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

[5] The Complainant presented evidence (C-1, C-2 & C-3) and argument for the Board's review and consideration.

[6] The Complainant presented a proposed income proforma for the subject property utilizing a market rent of $7.75 per square foot, a vacancy rate of 3%, a structural allowance of 2% and a capitalization rate of 7.25%. These income approach variables were derived from market data and reports obtained from a number of third-party sources. The market lease rates were based on Altus sourced leases throughout the City and supported by market reports drawn from four different source agencies. The vacancy rate and capitalization rates were also drawn from the same market reports.

[7] When the above noted variables are applied within the Complainant's proposed income proforma, a value for the subject property is determined to be $2,482,000 compared to the 2012 assessed value of $3,345,000.

[8] The Complainant argued that the income approach to valuation was the most appropriate method of valuation for the subject property and quoted from the Standard on Mass Appraisal of Real Property, "The income approach is the most appropriate method to apply when valuing commercial and industrial property if sufficient income data are available."

[9] The Complainant also presented five sales comparables as support for a requested reduction to the 2012 assessment. The Complainant advised that the sales comparables had been

time adjusted to the valuation date of July 1, 2011 utilizing the same factors used by the Respondent. The sales comparables ranged in unit value from $87.96 to $136.93 per square foot compared to the assessed value of the subject property at $136.93 per square foot. The average value of these sales was $114.16 per sq.ft. The Complainant stated that the subject should be valued somewhat lower than this average due to age and site coverage considerations. Based on the sales comparables presented, the Complainant determined that an appropriate unit value for the subject property would be $102.00 per square foot for a total valuation of $2,491,500.

[10] The Complainant also presented an appraisal of the subject property which had valued the subject property at $2,700,000 as of August 11, 2009 (C-2). The Complainant then applied the same time adjustment factor referenced previously to time adjust the appraisal conclusion to the valuation date of July 1, 2011. The time adjusted value of the appraisal is $2,620,000 compared to the 2012 assessment of $3,345,000.

[11] The appraisal presented by the Complainant used both the income approach as well as the direct sales comparison approach to valuation with the most weight given to the income approach as the subject was an investment property. The subject property's actual rents were utilized along with a capitalization rate of 8% and a vacancy rate of 3%.

[12] The Complainant also presented rebuttal evidence (C-3) which critiqued the Respondent's sales comparables with respect to age, building size and tenant type.

[13] In summary, the Complainant requested the 2012 assessment be reduced from $3,345,000 to $2,482,000.

<u>Position of the Respondent</u>

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

[15] The Respondent questioned the Complainant's income approach proforma with respect to the inputs for lease rate, vacancy rate, structural allowance and capitalization rate.

[16] With respect to the lease rates used to substantiate the Complainant's proforma lease rate, the Respondent noted that no lease details had been provided such as terms, tenant improvement allowances, incentives, etc. which can have a significant impact on the actual lease rate being paid. The Respondent noted that the market reports provided by the Complainant are generalizations only and do not provide the comprehensive analysis required to complete an accurate income approach valuation of the subject property.

[17] The Respondent indicated that "income capitalization can be particularly unreliable in the market for commercial or industrial property where owner-occupants outbid investors" (R-1, page 28) and that "typically, the direct comparison approach provides the best indication of value for owner-occupied commercial and industrial properties" (R-1, page 29).

[18] The Respondent presented six sales comparables in support of the 2012 assessment of the subject property. These comparables ranged in unit value from $117.43 to $159.55 per square foot compared to the assessed unit value of $136.93 per square foot.

[19] The Respondent noted that properties located on major roadways were typically assessed at a value approximately 10% higher than properties that did not have this attribute. The Respondent also stressed the importance of considering all factors in the valuation process, including age, location, lot size, area, finished area, condition and site coverage.

[20] In summary, the Respondent requested that the 2012 assessment of the subject property at $3,345,000 be confirmed.

Decision

[21] The Board confirms the 2012 assessment of the subject property at $3,345,000.

Reasons for the Decision

[22] After review and consideration of the evidence and argument presented by both parties, the Board determined that the 2012 assessment of the subject property at $3,345,000 is appropriate.

[23] 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 that 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 the 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 is 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 the cap rate was derived – was it determined using the actual incomes of properties that sold, or estimates of typical income?

[24] 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.

[25] With respect to the Complainant's use of a time adjusted appraisal (C-2) as a method of valuation, the Board finds the approach flawed in a number of respects. The appraisal relied on market data at a point in time to value the property using lease, vacancy and capitalization variables. For illustration, the appraisal used a capitalization rate of 8% as appropriate in August 2009; the income proforma advanced a capitalization rate of 7.25% as reflective of market conditions as of July 2011. These variables all change according to market conditions and cannot

be grouped together as if they would all change in the same fashion. The Board noted that with the capitalization rate, for instance, a minor change can result in a significant variance in overall valuation. Therefore the Board places less weight on the time adjusted appraisal in valuing the subject property.

[26] In reviewing the sales comparables provided by both parties, the Board places greatest weight on the Respondent's comparables #2 & #5 (R-1, page 18) and the Complainant's comparables #2 & #3 (C-1, page 9) as they were most similar to the subject property with respect to lot size, age, building size, office area, and site coverage. (Note: Respondent comp. #2 and Complainant comp. #3 are the same property and so the Board found three good comparables.) Two of the three comparables are located on major roadways like the subject. The average unit value of the three sales comparables is $133.42 per square foot, which supports the 2012 assessment of the subject property at $136.93 per square foot.

[27] The Board finds that the 2012 assessment of the subject property at $3,345,000 is fair in comparison to the best available market evidence.

Heard July 17, 2012.
Dated this 17th 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