EDMONTON
Assessment Review Board

10019 103 Avenue, Edmonton, AB T5J 0G9
Ph: 780-496-5026
Email: assessmentreviewboard@edmonton.ca

NOTICE OF DECISION NO. 0098 144/12

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:**
10078826	17204 116 Avenue NW	Plan: 0627784 Block: 1 Lot: 26A	$6,414,000	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: 583749 ALBERTA LTD

Edmonton Composite Assessment Review Board

Citation: Altus Group v The City of Edmonton, 2012 ECARB 001363

Assessment Roll Number:	10078826
Municipal Address:	17204 116 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 55,932 square foot medium warehouse with 48,042 sq.ft. of main floor development. It is located in the Armstrong Industrial subdivision in the City of Edmonton with 23% site coverage of a 206, 287 sq.ft. "L-shaped" lot. There are two cost buildings onsite, not included in the coverage calculation. 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 thirteen reasons for complaint. At the hearing, the Board heard evidence and argument on the following two issues:

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

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

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 both the income approach and the sales comparison approach.

[6] The Complainant tested the assessment by preparing an income approach proforma for the subject property. A lease rate of $7.50 per sq.ft. was attributed to the subject's 48,042 sq.ft. of main floor area and $5.00 per sq.ft. to 7,890 sq.ft to the upper floor 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 $5,305,279. To this was added an excess land adjustment of some $770,000 relating to 62,161 sq.ft. of land valued at $12.50 per sq.ft. After applying a negative 5% adjustment to the entire value to account for the subject's "L-shaped" configuration, the final income approach conclusion was $5,778,000.

[7] Five industrial leases were listed for comparison. The leases ranged from $5.50 to $10.00 per sq.ft. with an average of $7.30 per sq.ft. and a median of $7.00 per sq.ft. A rate of $7.50 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 $7.50 lease rate was fair, as were the vacancy and capitalization rates. The income approach, adjusted for land, determined a value for the subject of $95.05 per sq.ft. as compared to assessed value of $105.51 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 out of the three approaches.

[10] The Complainant further argued that two of the sales provided by the Respondent were significantly smaller than the subject and therefore resulted in higher square foot values of $158.46 and $159.55.

[11] The Complainant produced six sales (C-1, page 10) of similar properties that ranged from $77.17 per square foot to $117.43 per square foot. The Complainant argued that a value of $90 per square foot resulting in a value of $ 5,470,500 would be a fair valuation and asked that the Board reduce the assessment accordingly.

<u>Position Of The Respondent</u>

[12] The Respondent presented evidence and argument for the Board’s review and consideration.

[13] The Respondent presented six sales comparables, four of which are assessed on major roadway (#1,#2, #3 and #5) like the subject and two (#4 and #6) of which were also presented by the Complainant.

[14] The sales ranged from $93.27 per sq.ft. to $159.55 per sq.ft. The subject property is assessed at $112.67 per sq.ft.

[15] The Respondent furthered argued that five of the Complainant’s sales were not on a major roadway.

[16] 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.

[17] 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”.

[18] For these reasons the Respondent asked the Board to confirm the assessment at $6,414,000.

Decision

[19] The Board confirms the assessment of the subject property at $6,414,000.

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?

[20] 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.

[21] 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?

[22] 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?

[23] The Board notes that there is a discrepancy between the per square footage price between the parties. This is likely a result of the Complainant's inclusion of the area of the cost buildings.

[24] The Board examined the sales data from both parties carefully and concluded that the two sales that were in common to both parties at $95.12 per sq.ft. and $117.43 per sq.ft, and one additional sale from the Respondent at $95.24 per sq.ft, were the best comparables to the subject property with respect to location, size, site coverage, etc. Upon adjusting the two common sales for a major roadway by 10%, the resulting average of the three properties is $109.68 per sq.ft. This figure is very close to the assessment of $112.67 and the Board does not find that a reduction is warranted in this situation.

Heard July 18, 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