EDMONTON
Assessment Review Board

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NOTICE OF DECISION NO. 0098 169/12

AEC INTERNATIONAL INC.
1120, 10201 SOUTHPORT RD SW
CALGARY, AB T2W 4X9

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 August 20, 2012, respecting a complaint for:

Roll Number	**Municipal Address**	**Legal Description**	**Assessed Value**	**Assessment Type**	**Assessment Notice for:**
9514928	7350 68 AVENUE NW	Plan: 6601MC Block: 11 Lot: L	$3,628,500	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: MAURO INVESTMENTS LTD

Edmonton Composite Assessment Review Board

Citation: AEC INTERNATIONAL INC. v The City of Edmonton, ECARB 2012-000504

Assessment Roll Number:	9514928
Municipal Address:	7350 68 AVENUE NW
Assessment Year:	2012
Assessment Type:	Annual New

Between:

AEC INTERNATIONAL INC.

Complainant

and

The City of Edmonton, Assessment and Taxation Branch

Respondent

DECISION OF
Dean Sanduga, Presiding Officer
Jasbeer Singh, Board Member
Mary Sheldon, Board Member

Preliminary Matters

[1] Upon questioning by the Presiding Officer, the parties indicated they had no objection to the composition of the Board. In addition, the Board members indicated they had no bias on this file.

[2] There were no preliminary issues identified by either party.

Background

[3] The subject property is a medium warehouse on a 2.2 acre (95,737.8 square feet) parcel of industrial land zoned 'IM' in Davies Industrial East area in Edmonton. The warehouse, with a main floor area of 19,999 square feet, was built in 2002. The site coverage on the parcel of land is 21%. The 2012 assessment of the property is $3,628,500 which equates to $181.43 per square foot.

Issue(s)

[4] Is the 2012 assessment for the subject property fair and equitable?

Legislation

[5] The Municipal Government Act reads:

> ***Municipal Government Act*, RSA 2000, c M-26**
>
> s 1(1)(n) "market value" means the amount that a property, as defined in section 284(1)(r), might be expected to realize if it is sold on the open market by a willing seller to a willing buyer;
>
> 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

[6] The Complainant filed this complaint on the basis that the subject property assessment of $3,628,500 was inequitable and in excess of market value. In support of this position, the Complainant presented a 192 page assessment brief (Exhibit C-1).

[7] Although on the complaint form, the Complainant had objected to the description of the property, its assessment class, its type classification and the type of improvement, at the hearing, the Complainant confirmed that the only issue before the Board was the 2012 assessment value in respect of the subject property.

[8] The Complainant stated that the market valuation for the subject, derived from the Cost, the Income or the Direct Sales Comparison approach, did not support the 2012 assessment for the subject. The Complainant quoted excerpts from third party industry publications (C-1, pages 28-43), in support of the vacancy and capitalization rates used for income analysis. Excerpts from Marshall & Swift were quoted in support of the cost analysis (C-1, pages 44-90). The Complainant also provided detailed particulars of four sales comparables in support of the direct sales comparison analysis. (C-1, pages 91-137). A summary of the Complainant's analysis using all three approaches was also provided. (C-1, pages 138-143).

[9] The Complainant indicated that Marshall & Swift's cost approach indicated a value of $2,532,000 for the subject property. The Income approach, based on the parameters included in the independent third party reports suggested a value of $2,505,078 and the direct comparison approach based on the Complainant's four sales comparables resulted in a value of $2,132,593. (C-1, page 143).

[10] The Complainant argued that the sales comparables (C-1, pages 91-138) were comparable to the subject in terms of building size, lot size and site coverage. These comparables, with average and median sales prices of $100 and $107 per square foot, respectively, provided a good indication of the subject's market value for the 2012 assessment.

[11] The Complainant also presented an equity argument based on the four comparables used for the direct sales comparison approach. These four comparables showed average and median assessment values of $129 and $126 per square foot, respectively.

[12] During cross-examination by the Respondent, the Complainant agreed that;

a. The sales prices in respect of the four comparables had not been adjusted for time, location, age of the building, building size or site coverage. (C-1, page 138)

b. All four sales comparables were considerably older (by almost 30 years) than the subject property. (C-1, page 138).

c. It could not be confirmed whether or not the sales comparable #4 (14715 – Yellow Head Trail) was owner occupied. (C-1, page 138).

d. Information pertaining to the age of the rental properties used for the operating cost analysis was not available. (C-1, page 139).

[13] Using an average of the valuations indicated by the three approaches (Cost, Income and Direct Sales Comparison), the Complainant arrived at a valuation of $2,390,000 and requested the Board to reduce the 2012 assessment to this value. (C-1, page 143).

<u>Position of the Respondent</u>

[14] The Respondent presented a 35 page assessment brief (Exhibit R-1) and a law & legislation brief (Exhibit R-2) to the Board. The assessment brief included five sales comparables in support of the subject's 2012 assessment of $3,628,500.

[15] The Respondent explained to the Board that the subject assessment and similar assessments were prepared using the mass appraisal methodology based on direct sales comparison approach. (Exhibit R-1 pages 28-32).

[16] Quoting from the Appraisal Institute of Canada publication (R-1, page 22), the Respondent stated, *and '...income capitalization can be particularly unreliable in the market for commercial or industrial property where owner-occupants outbid investors'*. On the same page (R-1, page 22); the publication states that the cost approach *'... is particularly useful in valuing new or nearly new improvements and properties that are not frequently exchanged in the market.'*

[17] The Respondent stated that the direct comparison approach provides the best indication of value for owner-occupied commercial and industrial properties. (R-1, page 23).

[18] The Respondent stated that all five comparables were located in SE industrial quadrant of the City, same as the subject. The Respondent identified several aspects of similarities between the subject and the comparables

a. The building area of the comparables varied between 11,250 square feet and 38,302 square feet, putting the subject's 19,999 square feet, well within this range.

b. The subject had site coverage of 21% while the comparables ranged between 17% and 33%.

c. All comparables and the subject were in 'average' condition.

d. Main floor finished office space for the comparables ranged from 1,125 square feet to 17,648 square feet while the subject had 2,200 square feet of finished main floor space. In percentage terms, the subject was at 11% while the comparables ranged between 10% and 64%.

e. Three of the comparables had no finished upper floor space, nor did the subject have any.

f. The comparable properties had been constructed between 1974 and 2001. The subject was built in 2002.

g. The time adjusted sale price for the comparables ranged from $143.65 to $216.93 per square foot while the subject had been assessed at $181.43 per square foot.

[19] The Respondent stated that several comparables (#1, #2 & #3) showed a lower time adjusted per square foot sales price that needed significant upward adjustments for site coverage, building size and age, to provide good comparison with the subject.

[20] In response to questions from the Board, the Respondent stated that the sales comparable #4 (1431 – 70 Avenue), with adjustments for age and the upper floor finished space, could be viewed as the closest comparable.

[21] When questioned about considerably higher sale price ($216.93 per square foot) in respect of comparable #5 (6670 – 53 Avenue), The Respondent indicated that perhaps, it was attributable to low site coverage for a smaller building size (11,250 square foot) on a relatively smaller parcel of land (66,738 square feet).

[22] The Respondent submitted that in view of the fact that the sales prices of the Complainant's comparables had not been adjusted for significant differences, these sales prices could not be relied upon to provide true comparison. The direct sales comparison approach was the most suitable for valuing the commercial or industrial properties and the subject's 2012 assessment ought to be viewed in the context that considerable excess land value has been included in the per square foot assessment value.

[23] The Respondent argued that when all factors were considered, the 2012 assessment was fair and equitable. The Respondent requested the Board to confirm the subject's 2012 assessment.

Complainant's Rebuttal

[24] The Complainant presented a rebuttal document (C-2) and argued that the five sales comparables presented by the Respondent (R-1, page 15) did not support the subject's 2012 assessment of $181.43 per square foot. These five sales provided an average and median per

square foot sale price of $159 and $144 per square foot, respectively, while the subject had been assessed at $181.43 per square foot. (C-2, page 12).

[25] Additionally, the Complainant argued, that if an outlier with a time adjusted sale price of $216.93 per square foot (comparable #5 located at 6670 – 53 Avenue) was excluded, both the average and the median sale prices would be $144 per square foot. In the opinion of the Complainant that also did not support the assessment of $181.43 per square foot. (C-2, page 12).

[26] The Complainant combined the Respondent's sales comparables with the Complainant's sales comparables and demonstrated that all of the sales comparables combined yielded an average and median value of $132 and $137 per square foot that did not support the subject's assessment of $181.43 per square foot. (C-2, page 11).

[27] Excluding the two seeming anomalies (outliers) in the comparables' sales price table, the Complainant arrived at an average and median sales price of $129 and $137 per square foot respectively that also did not support the subject's 2012 assessment of $181.43 per square foot. (C-2, page 11).

[28] The Complainant questioned the validity of the Respondent's sales comparable #1 (5880 – 56 Avenue) as this had been identified as a 'sale/lease back for 5 years with a 5 year renewal'. The Complainant argued that such sales could not be viewed as 'typical' or reliable indicators of market value.

[29] The Complainant stressed that the Respondent's own information and sales comparables were flawed and did not support the current assessment of 3,628,500. The Complainant requested the Board to reduce the 2012 assessment to $$2,390,000.

Decision

[30] The decision of the Board is to reduce the subject's 2012 assessment to $2,740,000 as fair and equitable.

Reasons for the Decision

[31] The Board noted that three out of the four sales and equity comparables presented by the Complainant were from a different part of the city and required location adjustment that had not been applied. These comparables were also considerably older (by almost 30 years) than the subject and the sales prices had also not been adjusted to reflect the time effect.

[32] The Respondent's five sales comparables also did not provide any clear direction in that;

a. Comparable properties ranged from half to twice the building size of the subject (comparables varied between 11,250 square feet and 38,302 square feet, with the subject being 19,999 square feet).

b. The site coverage varied between 17% and 33% with the subject having 21% site coverage.

c. Main floor finished office space for the comparables ranged from 1,125 square feet to 17,648 square feet or from 10% to 64% of the total main floor space. The subject had only 2,200 square feet or 11% of the area as finished office space.

d. Two of the comparables had finished upper floor space while the subject did not have any.

e. One comparable property was 28 years older and another was 20 years older than the subject

f. The time adjusted sale price for the Respondent's comparables ranged from $143.65 to $216.93 per square foot while the subject had been assessed at $181.43 per square foot. The average of all five property values was $159.41 per square foot and if the anomalous figure ($216.93 per square foot) was excluded, the average of sales prices dropped to $145.03 per square foot. None of these numbers supported the 2012 assessment of $181.43 per square foot.

[33] The Board was persuaded by the Complainant's rebuttal analysis that both provided a blended view of all the Complainant's and the Respondent's sales comparables, with and without the anomalous sales figures. (C-2, page 11). In both analyses, the median of the comparables' sales prices was shown to be $137 per square foot.

[34] The Board reduces the subject's 2012 assessment to $2,740,000 that equates to $137 per square foot.

<u>Dissenting Opinion</u>

[35] There was no dissenting opinion.

Heard commencing August 20, 2012.

Dated this 23rd day of August, 2012, at the City of Edmonton, Alberta.

____
Dean Sanduga, Presiding Officer

Appearances:

Jason Luong, AEC International Inc.
for the Complainant

Suzanne Magdiak, Assessor, City of Edmonton
for the Respondent