ASSESSMENT REVIEW BOARD

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NOTICE OF DECISION NO. 0098 127/10

AEC International
112-1212 1 St. S.E.
Calgary AB
T2G 2H8

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 6, 2010, respecting a complaint for:

Roll Number	Municipal Address	Legal Description
3905098	13303 Fort Rd. N.W.	Plan: 9322135 Block: 1 Lot: 2A
Assessed Value	**Assessment Type**	**Assessment Notice For:**
$4,868,000	Annual New	2010

Before:

Board Officer: Kyle MacLeod

Don Marchand, Presiding Officer
Francis Ng, Board Member
Brian Carbol, Board Member

Persons Appearing: Complainant
Cameron Hall, AEC International Inc.

Persons Appearing: Respondent
Stephen Leroux – City of Edmonton Assessor
Tanya Smith – City of Edmonton Law Branch
Doug McLennan – Assessor, Observing

PRELIMINARY MATTERS

1. The Respondent had concerns with the rebuttal evidence stating that some of the evidence was new and lacked adherence to MRAC s. 8(c). Specifically, the rental rate concluded on page 4 at $1.28/ sq. ft. per month and the Assessment Sales Ratios (ASR's) computed on page 7 of Complainant's Rebuttal submission.
   The Respondent submitted that the rate of $1.28 was new evidence and was not a rate that was disclosed and that ASR material introduces a new issue. The Complainant argued that the rate was in response to the Municipality's rate of $1.45/ sq. ft. shown on page 24 and that the ASR calculations were in support of the Complainant's equity argument and the ASR expands Municipality's table of sales comparables found on page 43.
2. The Complainant requested the Board give consideration to a recent MGB decision that was brought to the Respondent's attention just prior to the hearing. The Complainant submitted that because the new evidence is a precedent setting case decided after the disclosure date it should be included in the current hearing.
   The Respondent objected to the MGB decision's admittance in the hearing as the material was not disclosed within the legislated timelines for disclosure.

PRELIMINARY DECISIONS

1. After a review of R-1 (pg. 24 and pg. 43) the Board is satisfied that C-1 (pg. 4 and pg. 7) do not add new evidence or a new issue. The evidence on page 4 points to a different quantitative amount. The typical annual rental rate per square foot is in dispute when the Municipality in its income approach test indicated a rate of $1.45/ sq. ft. (R-1 pg. 24) and the Complainant chose $1.40/ sq. ft. (C-1 pg. 7). The Complainant's computation of an ASR is in support of the first issue within the subject's Assessment Review Board Complaint form under *Section 5 – Reason(s) for Complaint* on equity.
2. The MGB board order was signed and available for disclosure within the legislative timelines and there was no consent to waive the deadline by the Respondent, therefore MRAC dictates no admittance.

DESCRIPTION AND BACKGROUND OF THE PROPERTY UNDER COMPLAINT:

The subject property is located on Fort Road between 133rd and 134th avenue in Northwest Edmonton and operates as a StorageMart self-storage facility. The main building formerly operated as a Totem Lumber Store but in 2000 was converted and now serves as a heated rental unit space, caged space, and vehicle parking space. There are a total of 340 rental units, of which 136 are heated.

The heated converted space has a building footprint of 41,674 square feet with mezzanine space of 4,083 square feet for a total space of 45,757 square feet. Four steel low profile cold mini-warehouse storage buildings were added in the year 2000 of varying building sizes. They are 3,800, 6,000, 6,300, and 5,100 square feet respectively for a total of 21,200 square feet of cold space. The site area is 3.79 acres. There is approximately 38% site coverage. The parties are in agreement with these facts.

The parties disagree on the efficiency of the converted building. The Complainant argues that only 19,277 square feet or some 42% of the total space is rentable space. The remainder of the area is lost to hallways, access and other dysfunctional space (19,277 + 21,200 = 40,477 sq. ft.). The Respondent accepts the amount of space set out in the Complainant's submitted 2007 appraisal which states the leasable area at 41,885 square feet, an amount provided within a rent roll used in the appraisal. The difference between the parties amounts to 1,408 square feet.

The Municipality has applied its cost approach valuation methodology to the subject property as the bases of the subject's assessment. The Respondent presented its cost approach valuation parameters as well as a "test income approach valuation performa" and the direct comparison of similar properties in defense of the assessment.

The Complainant submits that the subject, as an income generating property, should be assessed based on the subject's income potential. Based on the subject's rental rate, occupancy level, expense ratio and capitalization rate at the assessment date the Complainant is requesting an assessment of **$3,370,000**.

ISSUE:

Does the assessment of the subject property reflect its market value and is it equitably assessed compared to similar property?

LEGISLATION

***Matters Relating to Assessment Complaints*, AR 310/2009;**

Disclosure of Evidence

s. 8(c) the complainant must, at least 7 days before the hearing date, disclose to the respondent and the composite assessment review board the documentary evidence, a summary of the testimonial evidence, including a signed witness report for each witness, and any written argument that the complainant intends to present at the hearing in rebuttal to the disclosure made under clause (b) in sufficient detail to allow the respondent to respond to or rebut the evidence at the hearing.

The *Municipal Government Act*, R.S.A. 2000, c. M-26;

Decisions of assessment review board

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.

Complaints

s. 460(1) A person wishing to make a complaint about any assessment or tax must do so in accordance with this section.

POSITION OF THE COMPLAINANT

The Complainant's income analysis:

The Complainant submits that the cost valuation method used by the City of Edmonton does not arrive at an accurate portrayal of market value. Instead, the income approach, or direct sales comparison approach are more appropriate methods of market valuation. It is the Complainant's position that self-storage facilities should not be categorized as special use property. The Complainant argues that a self-storage facility trades to investors based upon its real income.

The Complainant provided a schedule listing some 70 across Canada reported self-storage sales from September 2006, 23 of which have reported capitalization rates. Six sales across Canada were identified as from Alberta. The Alberta sales reported are from February 2007 to April 2010 and the capitalization rates cited range from 7.5% to 10.95% (C-1, pg. 11). The sale of A-1 Storage in Blackfalds Alberta in July of 2009 with a reported capitalization rate of 9.65% is offered as the best support the Complainant's selected 9.7% capitalization rate.

In order to determine the real income to be capitalized the Complainant considered rental income, the occupancy rate, other income and the expense ratio.

The Complainant submits that tenancy and revenue are both volatile and normal for self-storage facilities, advising long term revenue stability is not possible and citing tenant turnover often exceeds 120% annually. (C-1, pg. 5). Provided to the Board was a chart showing the monthly rental per *occupied* square foot for the period of February 2008 to February 2010. The rental rates range from just under $1.00/sq. ft. to $1.80/ sq. ft. and a computed best fit line indicating a rate of $1.40/ sq. ft. (C-1, pg. 8).

The Complainant submits the industry average stabilized occupancy is 75% and that stabilized occupancy as low as 60% is now not uncommon. Provided was a chart showing the subject's February 2008 to February 2010 actual occupancy. A downward trend is shown. Occupancy drops, from the 90% - 95% in the first half of 2008 to 75% – 80% in late 2009 and early 2010. The Complainant chose 75% (C-1, pg. 5).

The Complainant submits that historically the subject property has operated with other income between 4% and 6% of the total actual rent and with expenses between 37% and 42% of the total actual rental income plus other income (C-1 pg. 9). The average Edmonton operating expense was 39%. (C-1, pg. 10).

Based on the parameters chosen by the Complainant's fair market value stabilized by the income approach is reconstructed in the following table:

Total Developed Area in sq. ft.	66,957	
Unrentable Areas	26,480	
Total Rentable Area	40,477	40%
Stabilized Occupancy	75%	
Stabilized Effective Gross Income per month	$42,501	$1.40/sq. ft.
Other Income	$2,125	5%
Total Effective Gross Income per month	$44,626	
Annualized Total Effective Gross Income	$535,511	
Less Expenses	-$208,849	39%
Net Operating Income	$326,662	
Capitalization Rate	9.7%	
Fair Market Value Stabilized	$3,367,645	
rounded	**$3,370,000**	

The Complainant also submitted an appraisal which concluded a market value as of April 1st, 2007 of $4,330,000 for the subject. (C-1, pg. 23). The appraisal carries the understanding that it is to be used by the recipient as support for *acquisition and mortgage financing* purposes. The following conclusions were offered by the Complainant to adjust the Appraisal to the current July1st, 2009 assessment valuation date:

- The un-rentable area percentage is increased from 33% to 40%; therefore the total leasable area is reduced from 41,885 square feet to 40,477 square feet.
- The Gross Potential Income has increased based on the rental increasing from $1.29psf to $1.40psf and the other income increasing from 4.8% to 5.0%.
- The stabilized occupancy rate increased from 10% to 25%; therefore reducing the total potential income.
- The operating expenses percentage decreased from 43% to 39%
- The capitalization rate has increased from 8.9% to 9.7%

The July1st, 2009 market value based on the conclusions reasoned by the Complainant decreases the April 1st, 2007 estimate of $4,330,000 to the requested assessment of **$3,370,000.**

The Complainant's equity analysis:

The Complainant submits that the subject's assessment is not fair and just in relation to the assessment value of other similar properties and provided the Board with the details of a comparable facility some five properties to the east of the subject known as Sentinel's Fort Road centre (C-1, pg. 13). The Complainant indicates the neighboring facility is of similar age and is 100% purpose-built. It has five conventional steel mini-warehouses (cold storage) and a larger climate controlled building similar in construction to the building added to the subject's site in 2000. It is the Complainant's position that the purpose-built facility is more efficient than the converted facility, having less lost rentable area, better site utility, less heat loss as a result of lower ceiling height, and a more efficient manager to space ratio. The Complainant also submits that the subject's location is inferior to the comparable because of its internal location and poor access and exposure. The subject property's assessment is 6% greater than the comparable (C-1, pg. 17).

By using the same parameters indicated in the Complainant's income analysis for the subject and applying them to the Sentinel's Fort Road Centre with adjustment for the percent of unusable space from 40% to 15% and reducing the expense ratio from 39% to 25% it is the Complainant's conclusion that the comparable is under assessed by 26%.

The Complainant concluded that by relying on the cost approach, without reference to actual market value, results in the comparable being under assessed while the subject is over assessed (C-1, pg. 18)

The Complainant's direct comparison analysis:

The Complainant submits that the subject is comprised of two distinct parts:

- The conventional, outside, long thin, shell self-storage building and,
- A converted purely interior climate-controlled storage building.

The Complainant provided the Board with two properties to consider. The first comparable is the Sentinel facility at 21010 – 100 avenue, the intersection of Winterburn Road and the Stoney Plain highway which is assessed at $2,046,500. The site is 3.67 acres and contains 51,562 square feet of mini-warehouse buildings (C-1, pg. 20). The Complainant states that the indicated rate of $40.00/ sq. ft. value that could be applied to the subject 21,200 square feet of similar mini-warehouse buildings. The second comparable provided is another Sentinel facility at the corner of 99th street and Argyll Road. This, like the subject, is an industrial building converted into a self-storage facility. The comparable has 70,097 square feet of building on 3.36 acres and carries an assessment of $3,724,000 or $53.13/ sq. ft. of building area (C-1, pg. 22). The two rates indicated by the comparables applied to the subject's two components by direct comparison yields an indicated value supporting the Complainant's request.

Shell Self Storage:	21,200sf @ $40.00psf = $ 850,000
Converted Industrial Self Storage:	45,757sf @ $53.00psf = $2,430,000
Total Equity Comparable Value:	$3,280,000

The Complainant requested an assessment of **$3,370,000**

POSITION OF THE RESPONDENT

The Respondent's use and analysis of their cost approach:

The Respondent submits that the cost approach to value is applied to all special-use properties that do not fit the direct sales or income approach assessment models and that all the mini-warehouse self-storage facilities within the municipality were treated in the same manner. The Respondent submits that the term 'special-use' is used by appraisers to denote a significant difference between a generally accepted or typical property type, and those that are unusual and have few possible users or owners. Active trading of these facilities in Edmonton has been limited. In Edmonton there were 2 sales in 2006, 2 sales in 2007, 1 in 2008 and none in 2009 as reported by the Network.

The Respondent submits these properties do not have sufficient income and expense data for generating an income valuation. Adequate data for the subject is not readily available. The Municipality does not request rental and expense data on the subject property types as the data was not required in the preparation of the assessment and the Respondent points out that rent rolls were not provided by the Complainant.

The purpose of assessing properties on cost is to achieve greatest equity possible and assess the closest to fair market value.

The Respondent provided eleven supporting sales and their analysis considered in estimating the land component. The sales took place since April 2006 and were all time adjusted to July 1st, 2009. The parcels range in size from 1.0 acre to 3.43 acres, have a similar land use, and have a valuation rates in range of $676,260 to $799,980 per acre. The subject is assessed at $736,830 per acre or $2,792,580.

The depreciated improvement valuation of each building was added to the value estimated for the land. The Respondent provided a detailed cost detail report together with the depreciation allotments for each building. They are summarized as follows:

-	The convert 1987 distribution warehouse to self-storage with mezzanine.	$1,603,587
-	The 2000 mini-warehouse of 3,800 square feet.	$75,361
-	The 2000 mini-warehouse of 6,000 square feet.	$112,503
-	The 2000 mini-warehouse of 6,300 square feet.	$117,593
-	The 2000 mini-warehouse of 5,100 square feet.	$97,421
-	NETS site improvement, fencing, etc.	$69,448
	Building Assessment	$2,075,913
	Land Assessment	$2,792,580
	Assessment	**$4,868,000**

The Respondent's test using the income approach:

In order to meet the challenge of undertaking a test using the income approach the Respondent indicated that reliance on exchanged material and third party resources was essential. The leasable area the Respondent used came from the subject's appraisal wherein 41,885 square feet was identified. Upon a site inspection in preparation for this hearing the Respondent received a Unit Listing which identified an occupancy level of 83% and the Appraisal cites a stabilized occupancy of 90%. For their income test, the Respondents chose 85%. A typical rental rate of $1.45 was applied to the 41,885 square feet of leasable space with a 5% other income allowance added to establish the effective gross income. The rate of $1.45, the Respondent advised, was a reasonable interpolation of rental rates provided in the range of $1.00/ sq. ft. to $1.80/ sq. ft. The stabilized effective gross income was reduced by a 37% expense ratio yielding an effective net income which was capitalized using an 8.5% rate. The operating cost rate of 37% the Respondent advised was again a reasonable choice from the range of 37% to 40% provide by the Complainant. The Respondent indicated that consideration was given the rates published from the industry. In Edmonton, Colliers International reported rates in the range of 7.25% to 8.5% for multi-tenant A to single-tenant B space. The capitalization rate reported by Network for the 2008 Edmonton self-storage sale was 7.35%.
Based on the parameters chosen the Respondent's test of the income approach is reconstructed in the following table:

Total Rentable Area	41,855	Per Appraisal
Stabilized Occupancy	85%	
Stabilized Effective Gross Income per month	$51,586.29	$1.45/sq. ft.
Other Income	$2,579.31	5%
Total Effective Gross Income per month	$54,165.60	
Annualized Total Effective Gross Income	$649,987.22	x12
Less Expenses	-$240,495.27	37%
Net Operating Income	$409,491.95	
Capitalization Rate	8.5%	
Fair Market Value Stabilized	$4,817,552.36	
Assessment	$4,868,000	
Percentage Difference	1%	

The Respondent's test using sales comparisons:

The Respondent provided the Network's reporting for the subject's sale in April, 2007 reported at $4,740,803 as well as the Network's reporting for the other 2007 sale for $4,360,000. The comparable is mini-storage facility located at 14350 – 111 avenue on 3.56 acres having a building area of 46,929 square feet ($92.90/ sq. ft.). Seven additional typical warehouse sales were provided. With only the main building area used as a unit of comparison range from $102.07/ sq. ft. to $247.33/ sq. ft. The subject based only on the main floor area amounts to $116.81/ sq. ft.

The Respondent's test using equity comparisons:

The Respondent provided their review of the same mini-warehouse and converted warehouse equity comparable put forth by the Complainant. Based on the Respondent's cost approach parameters the land values range from $241,408 to $820,194. The specific land rates were $241,408, $741,444, $820,194, and $892,414 per acre. The Respondent cites the Winterburn/Stoney Plain's location to be the least similar with its $241,408 rate. The other a very comparable as the rates suggest. The subject's land rate is $736,828 per acre.

Based on the Respondent's cost approach parameters the comparable mini-warehouses have a value range from $22.51/ sq. ft. to $28.90/ sq. ft. The subject's mini-warehouse components are assessed at $22.28/ sq. ft. The two comparable converted warehouse components used as equity comparables are assessed at $12.50/ sq. ft. and $15.22/ sq. ft. respectively. The subject's converted warehouse component is assessed at $35.00/ sq. ft. The Respondent points out that there is significant amount of depreciation difference because of the 1950's construction versus the 1987 built renovated subject property.

DECISION

The Board confirms the assessment at $4,868,000.

REASONS FOR THE DECISION

s. 460(1) of the Municipal Government Act provides for a complaint to be made about an assessment. The question as to which methodology or which approach to valuation is best in determining a property's market value almost becomes moot as all the approaches are available to an evaluator to achieve the objective of "market value".

The Municipality has chosen the cost approach methodology for the reasons argued at this hearing as it is the approach of choice for similar mini-warehouses and self-storage facilities within the Municipality.

From the evidence it is clear that there are a limited number of similar properties and likewise a very limited number of sales indicators from within the municipality. Income levels, operating expense ratios, occupancy rates, and capitalization rates aren't readily available from the market place which makes an income approach less viable. Both parties spoke to the volatility of the revenue and occupancy of the subject and the Board agrees with the parties that it is the very nature of the business that makes their determination challenging. Actual income and expense statements were not available at the hearing. The indicated capitalization rates concluded from the across Canada reported sales vary significantly. The six Alberta sales suggest capitalization rates with a three point spread - 7.5% to 10.9%. The most recent sale in the Municipality similar to the subject had a capitalization rate concluded at 7.35%, some two points lower than the Blackfalds, Alberta sale with a capitalization rate concluded at 9.65%.

The Respondent supported the land rate applied to the subject with comparable sales. The cost manual and the amount of depreciations were not contested. The rate per square foot for both the mini-warehouse components and the converted warehouse component were supported by rate determined from comparable sales.

The Board also gives some weight to the 2007 appraisal and sales transaction which indicated values 4.3 and 4.7 million at that time. The Board is not persuaded by the evidence to reduce the assessment to $3.3 million.

Dated this 3rd day of August, 2010, at the City of Edmonton, in the Province of Alberta.

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Presiding Officer

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, R.S.A. 2000, c.M-26.

CC: 4345142 CANADA INC.