

## **Edmonton Composite Assessment Review Board**

**Citation: CVG v The City of Edmonton, 2013 ECARB 00992**

**Assessment Roll Number:** 10243803

**Municipal Address:** 11914 121 STREET NW

**Assessment Year:** 2013

**Assessment Type:** Annual New

Between:

**CVG**

Complainant

and

**The City of Edmonton, Assessment and Taxation Branch**

Respondent

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**DECISION OF**  
**Robert Mowbrey, Presiding Officer**  
**Brian Frost, Board Member**  
**Taras Luciw, Board Member**

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### **Procedural Matters**

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

### **Preliminary Matters**

[2] There were no preliminary matters.

### **Background**

[3] The subject property comprises two buildings, an office building and a warehouse, located at 11914 121<sup>st</sup> Street NW. The office building is classified as an "A" office building in the 118<sup>th</sup> Avenue market segment, has three stories and 9,636 square feet. The warehouse contains 4,200 square feet. The office building was constructed in 2011 and the warehouse is much older. The 2013 assessment for the subject property is \$2,677,500.

### **Issue(s)**

- [4] What is the appropriate capitalization rate for the subject property?
- [5] What is the appropriate inferior location adjustment for the subject property?
- [6] What is the appropriate rental rate for the warehouse space?

## **Legislation**

### **[7] The *Municipal Government Act*, RSA 2000, c M-26, reads:**

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**

[8] The Complainant filed this complaint on the basis that the subject property assessment of \$2,677,500 is in excess of market value and inequitable. In support of this position, the Complainant submitted an evidence package containing 17 pages (Exhibit C-1) and Rebuttal, containing 17 pages (Exhibit C-2). The Complainant stated the subject office building was rated as an “A” class building in the 118<sup>th</sup> Avenue office building district (Exhibit C-1 page 1).

[9] The Complainant advised the Board the issues being addressed were as follows:

- a. the capitalization rate (cap rate) is too low compared to cap rates from sales of recent comparable properties.
- b. the 15% location adjustment is insufficient to recognize the poor access and absence of street exposure and a 25% location adjustment would be deemed more appropriate.
- c. the unfinished warehouse space should be assessed at \$6.00 per square foot instead of the \$12.00 per square foot, the City has assessed.

[10] The Complainant advised the Board that the subject property was in an odd location with access only from the alley. There was no access from 121<sup>st</sup> Street and in addition, the older structure was utilized for storage only and had limited value. The Complainant provided a map and photographs for the Board’s information (Exhibit C-1 pages 4, 6-8).

[11] The Complainant did not disagree with the subject property’s class “A” status, nor the \$20.00 per square foot rental rate on the office space. However, the Complainant stated that the City applying 60% assessed value to the warehouse space (\$12.00 psf) based on the office space was not equitable (Exhibit C-1 pages 1/2).

[12] The Complainant advised the Board that \$12.00 per square foot for the older building is excessive and the assessment regarding the older unfinished warehouse space should be no more than \$6.00 per square foot (Exhibit C-1 page 1).

[13] The Complainant detailed eight sales comparables (Exhibit C-1 page 2) which sold between January 2010 and July 2012, whose cap rate ranged from 6.93 to 8.61%.

[14] The Complainant advised the Board that most weight should be placed on sales comparable #1 (5651/81-70<sup>th</sup> Street) and sales comparable #6 (13151-146<sup>th</sup> Street). The cap rates at sales comparable #1 of 7.30% and sales comparable #6 of 8.38% suggest a cap rate for the subject property of 7.50% would be appropriate (Exhibit C-1 page 3).

[15] The Complainant advised the Board regarding the 2013 suburban office buildings valuation rates in the Edmonton area (Exhibit C-1 page 9).

[16] The Complainant advised the Board regarding the 2013 assessment for the subject property. Utilizing \$20.00 per square foot for office, \$12.00 per square foot for warehouse, a cap rate of 6.75% and a location adjustment of 15%, the resulting 2013 final market value estimate is \$2,677,000 (Exhibit C-1 page 5).

[17] The Complainant advised the Board that utilizing \$20.00 per square foot for office, \$6.00 per square foot for warehouse, a 6.75% cap rate, and a 15% location adjustment, the resulting value would be \$2,367,000 truncated (Exhibit C-1 page 2). The Complainant further stated that by using a 25% location adjustment, the resulting figure would be \$2,089, 000 truncated.

[18] In addition, the Complainant advised the Board utilizing \$20.00 per square foot for office, \$6.00 per square foot for warehouse, a 15% location adjustment and a 7.50% cap rate, the resulting figure would be \$2,130,542 (Exhibit C-1 page 3).

[19] The Complainant requested that the 2013 assessment of the subject property be reduced to \$2,100,000.

[20] During cross-examination of the Complainant by the Respondent, the Complainant advised the Board of the following:

- a. the \$20.00 per square foot assessed rental rate is fine with the Complainant.
- b. the issue is with the \$6.00 per square foot versus the \$12.00 per square foot assessed on the warehouse.
- c. the Complainant did not have any \$6.00 per square foot comparables.
- d. the Complainant stated that exposure of the subject property was an issue and the Complainant did not know if there was retail in the facility.
- e. the Complainant requested a \$6.00 per square foot assessment on the warehouse and a 25% location adjustment.
- f. the Complainant stated that he did not have any 25% location adjustment sales comparables.
- g. the Complainant stated the subject property was built in 2011.

[21] The Complainant presented the Board with a Rebuttal evidence package (Exhibit C-2 17 pages), showing the Network documents compared with the City documents. In addition, the Complainant advised the Board that the weight of evidence should be placed on market data.

[22] During summary, the Complainant advised the Board that the storage rate can be \$1.50 per square foot, but the Complainant is stating that a \$6.00 per square foot assessment on the storage area is realistic.

[23] The Complainant stated the subject property was in an unusual location with being in mid block and the only access being the back alley.

[24] The Complainant advised the Board the rent would not be the same for a similar property in a better location. In addition, the fact that the owner occupies the building presents a higher risk and therefore a higher overall cap rate.

[25] During summary, the Complainant agreed that storage should be assessed higher than \$1.50 per square foot, but the question is, how much?

[26] The Complainant stated that the warehouse space is utilized by storing appliances for the housing corporation. The assessed rental rate for class "B" office space is \$12.00 per square foot, and \$6.00 per square foot is well above the storage rate and not unreasonable.

[27] The Complainant reiterated by concluding the subject property is overstated and the Complainant requested the Board to reduce the 2013 assessment of \$2,677,500 to \$2,100,000.

### **Position of the Respondent**

[28] In defending the current year's assessment, the Respondent submitted a 99 page evidence package (Exhibit R-1) in support of the argument that the 2013 assessment is fair and equitable.

[29] The Respondent explained to the Board the mass appraisal brief regarding the methodology for valuing individual properties. The mass appraisal properties are stratified into groups of comparable properties, common property attributes are identified for the property in each group and a uniform valuation model is calibrated for each group using market information incorporating the property attributes (Exhibit R-1 pages 71-86). The Respondent noted that the City of Edmonton has met all governing legislation including regulations and quality standards (Exhibit R-1 page 86).

[30] The Respondent presented maps and photographs of the subject property to the Board (Exhibit R-1 pages 5-12).

[31] The Respondent brought the Board's attention to the commercial retail unit (CRU) other: that includes warehouse, daycare or greenhouse space. This category also provides for miscellaneous uses not identified under a space type's category (Exhibit R-1 page 76).

[32] The Respondent advised the Board regarding the issues raised by the Complainant. The Respondent noted that the City values all warehouse type spaces for its office inventory at the level of 60% from typical office rate utilized in assessment. Since the typical office rate for class "A" office buildings for 118<sup>th</sup> Avenue market segment is \$20.00 per square foot, therefore a

\$12.00 per square foot assessment is applied to the warehouse bay attached to the office structure is appropriate (Exhibit R-1 page 15).

[33] The Respondent advised the Board that assessment for office properties do not have adjustments for the interior/superior location. Methodology wise, the subject property was transferred from the direct sales approach to the income approach. The subject property received a 15/% adjustment utilized in industrial land for 2013 assessment. Industrial properties may or may not receive adjustments for inferior/superior access to properties. Other properties do not receive this type of adjustment. Studies performed with regard to entries to the office properties demonstrated that type of entry does not affect the net rate charged by the owners to their tenants. Therefore in the 2014 assessment, this adjustment will not be applied to the subject property (Exhibit R-1 page 15).

[34] The Respondent explained the analysis of the cap rate study and the factors that make up the determinants in the cap rate study. As it is indicated in the City's capitalization rate study the range of OCR (for available valid sales of AA and A class suburban office properties) was from 4.25% to 9.10%. The City consistently applies the same methodology of developing an overall cap rates for different office classes; median rate (helps to reduce the influence of outliers) came to 6.60%. The City therefore determined that typical overall cap rate for AA and A suburban office class buildings in the 118<sup>th</sup> market segment should be utilized at 6.75% (Exhibit R-1 pages 16 and 17).

[35] The Respondent advised the Board about the 2013 suburban office buildings valuation rates for the office building inventory (Exhibit R-1 page 39).

[36] The Respondent advised the Board about the available suburban rental rates on the "A" class office buildings in the 118<sup>th</sup> Avenue market segment. The time-adjusted median net rent is \$20.13 per square foot and the average net rent is \$18.72 per square foot (Exhibit R-1 page 40).

[37] The Respondent advised the Board regarding the equity for suburban 118<sup>th</sup> Avenue class "A" office buildings. The 118<sup>th</sup> Avenue suburban office buildings were all assessed \$20.00 per square foot and a cap rate of 6.75% (Exhibit R-1 page 41).

[38] During cross-examination of the Respondent by the Complainant, the Respondent advised the Board of the following:

- a. the Respondent noted there was no access to the subject property from 121<sup>st</sup> Street.
- b. the Respondent did not know the age of the storage area.
- c. the Respondent noted that unfinished storage, typically is assessed at \$1.50 per square foot.
- d. the Respondent advised the Board that the 15% adjustment was for the subject property under the industrial land inventory,
- e. the Respondent advised the Board that an overhead door defines a warehouse as opposed to storage.
- f. the Respondent did not note any warehouse activity.

[39] During summary and argument the Respondent advised the Board that the 4200 square foot warehouse classification issue was not on the complaint form. A minivan is inside and the subject property is not your typical office storage space. The Respondent notes the City's office storage space is \$7.00 per square foot (recording at September 27<sup>th</sup> at 2.39.20 in room 6) and asked if \$6.00 per square foot is more appropriate. However, the Respondent points out to the Board that there is no evidence to support the \$6.00 per square foot assessment rate on the storage/warehouse space.

[40] Regarding access, the Respondent notes that retail may be affected, but since this is office, the City says access is not an issue and the current adjustment is an error and the adjustment will not occur in 2014. The Respondent notes that some office buildings in the 118<sup>th</sup> Avenue market segment are on side streets and there is nothing to warrant a reduction or adjustment. The Respondent reminded the Board to not double count for weird access and stated the subject property is not land locked.

[41] The Respondent asked the Board to confirm the 2013 assessment of \$2,677,500.

### **Decision**

[42] The decision of the Board is to reduce the 2013 assessment of \$2,677,500 to \$2,367,000.

### **Reasons for the Decision**

[43] The Board accepts the Respondent's cap rate analysis to determine the assessed value of the subject property. The adjusted cap rate median of 6.60% reflects the cap rate analysis provided by the City. The City therefore utilized 6.75% by the City for class "A" and class "AA" properties in the Edmonton office suburban building market. The Board accepts that 6.75% cap rate is fair and equitable for the subject property.

[44] The Board accepts the \$20.00 per square foot rental rate governing suburban rental rates for 118<sup>th</sup> Avenue class "A" office buildings. The 5 renewals and 2 new leases signed within 18 months of valuation for a time-adjusted median of \$20.13 per square foot indicate the \$20.00 per square foot assessment is fair. In addition, the Board notes the Complainant had no real difficulty in accepting the assessed rental rate for the office space regarding the subject property.

[45] However, the Board does not accept the premise that the assessed warehouse/storage space of \$12.00 per square foot is fair and equitable. In this case, the 60% mathematical factor of the office space rental rate for the storage/warehouse should not apply. The storage/warehouse space is considerably older than the office space portion of the subject property.

[46] The Board accepts the recommendation of the Complainant regarding the assessed rental rate of \$6.00 per square foot for the 4200 square foot storage/warehouse space.

[47] The Board notes that class "B" office buildings in the 118<sup>th</sup> Avenue market segment are assessed at \$12.50 per square foot and the assessed \$12.00 assessed rental rate for storage/warehouse space amounts to about the same assessed rental rate. The Board does not find this to be fair and equitable.

[48] Concerning the access/egress to the subject property, the Board understands the City's motivation in allowing a location adjustment. The Board agrees with the Respondent that a location adjustment and a cap rate increase would result in double counting.

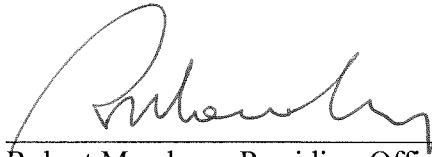
[49] However, the Board further notes that if the location adjustment was not on the subject property, the Board would have to consider a cap rate adjustment. The Board notes the Complainant could not provide any evidence regarding a 25% location adjustment. The Board is of the opinion that all the class "A" and class "AA" office suburban buildings in the 118<sup>th</sup> Avenue market segment have appropriate access and egress to their respective premises. The Board suggests that all of such "A" and "AA" buildings as part of the mass appraisal process do not have access/egress to their premises by a back alley.

**Dissenting Opinion**

[50] There is no dissenting opinion.

Heard commencing September 27, 2013.

Dated this 18<sup>th</sup> day of October, 2013, at the City of Edmonton, Alberta.

  
Robert Mowbrey, Presiding Officer

**Appearances:**

Tom Janzen  
for the Complainant

Tanya Smith, Legal Counsel

Vasily Kim, Assessor  
for the Respondent

*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.*