Edmonton Composite Assessment Review Board

Citation: Altus Group v The City of Edmonton, 2014 ECARB 00646

Assessment Roll Number:	10037164
Municipal Address:	18420 118A AVENUE NW
Assessment Year:	2014
Assessment Type:	Annual New
Assessment Amount:	$4,022,000

Between:

Mancal Property Investments Inc represented by Altus Group

Complainant

and

The City of Edmonton, Assessment and Taxation Branch

Respondent

DECISION OF
Petra Hagemann, Presiding Officer
Brian Frost, Board Member
Darryl Menzak, Board Member

Procedural Matters

[1] Upon questioning by the Presiding Officer the parties indicated they did not object to the Board's composition. In addition, the Board members stated they had no bias with respect to this file.

Preliminary Matters

[2] The Respondent stated that there were changes to the disclosure involving removal of the cost building square footage from the assessment spread sheets and amendment of page 23, and removal of page 32. The Board agreed that those items would be dealt with on presentation of the Respondent's evidence and argument.

Background

[3] The subject property is a 152,078 square foot (sq ft) level site upon which is situated a 15,420 sq ft building and a 2,400 sq ft secondary (cost) building. The subject property is a typical office/warehouse of which approximately 45%, (6,919 sq ft on two levels), is finished office space and shows an effective year built of 1998. Site coverage is 9%. The 2,400 sq ft secondary building on the site, on the basis of the preliminary matter, is not in contention.

[4] The subject property is situated in the White Industrial neighborhood of northwest Edmonton at 18420 – 118A Ave NW.

[5] The building is in average condition and the subject property was assessed using the direct sales comparison approach.

Issues

[6] Has an incorrect approach been used in assessment of the subject property, resulting in an assessment that is too high?

Position of the Complainant

[7] The Complainant filed the complaint on the basis that the assessor had failed to recognize fair market value in the assessment of the subject property, in particular, the manner of the assessment of the primary building.

[8] The Complainant addressed the direct sales comparison approach as used on the assessment, stating that the sale comparables used by the Respondent were inappropriate given the substantially lower than average 9% site coverage as well as the high percentage of office space and quality of finish in the subject building.

[9] The Complainant quoted the International Association of Assessing Officers (IAAO) wherein it states *"the cost approach is applicable to virtually all improved parcels,... and is more reliable for newer structures"* as well as the Alberta Assessors' Association Valuation Guide which states *"the theory behind the cost approach to value follows the principle of substitution: the value of a property is equal to the amount it would cost to replace it with a substitute of equal value"*.

[10] The Complainant further quoted the Alberta Assessors' Association Valuation Guide: Warehouses where it states *"in the case of common properties such as warehouses that are reasonable similar in nature, the replacement cost approach is an acceptable and appropriate method of arriving at an indicator of fair market value"*.

[11] The Complainant, in response to the Respondent's submission, stated the lack of comparability with the Respondent's sale comparables suggested that direct sales comparison approach was invalid and that the correct method for assessing the subject property would be to assess the improvements in their entirety based on the cost approach. The Complainant stated that with the assistance of the Marshall and Swift on line valuation service, the depreciated cost of the primary building should be $1,568,786.

[12] The Complainant provided a page obtained from the City of Edmonton Tax Information System that indicated that the depreciated cost value of the main building for the subject property was $1,087,483 and for the secondary building was $99,012. The Complainant noted that the City in its cost estimate rated the building as a "C" class whereas the Marshall and Swift calculation rated it as a superior "A" class building, thus explaining the difference. The Complainant stated there was no issue with the City's depreciated cost value for the secondary building.

[13] The Complainant provided a table with supporting data in which details were documented for seven land sales that occurred between March 2008 and June 2013. They ranged in size from 121,773 sq ft to 241,941 sq ft and were similarly zoned. The time adjusted sale prices (TASP) ranged between $10.90 per sq ft and $18.29 per sq ft, averaged $14.22 per sq ft

and reflected a median of $13.27 per sq ft. The Complainant suggested that 2,129,089, ($14.00 per sq ft) would be an appropriate value estimate for the subject land.

[14] The Complainant advised the Board that land was a key factor in the valuation because of its large size relative to the improvements.

[15] The Complainant concluded that on the basis of the Direct Sales Comparison Approach, the assessment was excessive, inaccurate and inappropriate. The Complainant asked that the Board reduce the 2014 assessment to $1,568,786 for the main building, $99,021 for the secondary building and $2,129,887 for the lands), for a total of $3,796,887 on the strength of the cost approach to value.

Position of the Respondent

[16] The Respondent defended the assessment on the basis that while the International Association of Assessing Officers (IAAO) and the Appraisal Institute of Canada recognize that all three approaches are valid in mass appraisal and that each may be used in certain circumstances, the majority of office/warehouse sale transactions involved owner occupiers. The market has been very active for this type of property. Accordingly the Direct Sales Comparison approach is employed.

[17] The Respondent provided a table displaying the sale of six properties similar to the subject that occurred between April 2009 and December 2012. The Respondent's comparable sales ranged in year built from 1978 to 2004; ranged in total building size from 7,317 sq ft to 14,392 sq ft; in site coverage from 8% to 20%; and ranged in office component from 26% to approximately 36%. The time adjusted sale prices (TASP) ranged between $221 and $279 per sq ft. The Respondent concluded that the subject property, built in 1998, with 15,420 sq ft of building, 9% site coverage and 45% office space fell within the range of comparable sales and the assessment of $260 per sq ft was well supported.

[18] The Respondent questioned the Complainant's use of the Marshall and Swift valuation model, in particular the lack of back up data as it related to the building specification used in the analysis and potential for error in its application, adding that Marshall and Swift could not measure the costs associated with a market as heated as that in Edmonton where construction delays, holding costs and profit margins could be outside the norm.

[19] The Respondent added that depreciation in the Cost Approach can quickly become inaccurate as improvements age, and where depreciation in a newer building is easier to determine, middle aged buildings such as the subject present the greatest challenge in determining depreciation.

[20] The Respondent agrees that the cost approach may be appropriate for outbuildings but the resale market has been quite active and has shown sufficient activity to provide a good array of sales comparables.

[21] The Respondent closed in stating that in using the Cost Approach to Value and in the absence of the Direct Sales Comparison Approach to Value the Complainant has failed to meet onus.

[22] The Respondent asked that the Board confirm the 2014 assessment of $4,022,000.

Decision

[23] The Board confirms the 2014 assessment of $4,022,000.

Reasons for the Decision

[24] The Board first considered the Complainant's issue as regarding use of the Cost Approach to Value as opposed to the use of the Direct Sales Comparison approach to value.

[25] The Board considered the Complainant's argument that the Cost Approach was most appropriate given the larger than average land component and high percentage of office space within the primary building and that the sale comparables as presented by the Respondent were lacking in comparability to the subject property. Therefore the Complainant's conclusion was that the correct method of assessment would be the Cost Approach to Value.

[26] The Board considered the Respondent's position that the cost approach as presented was not supported by data and was prone to error, and that at any rate there were more than enough sale comparables to rationalize use of the direct sales comparison approach in calculation of the assessment.

[27] The Board took note of the Complainant's argument that a copy of a cost approach completed by the City for the subject property had been obtained in a web search and that the Complainant included it within the disclosure. The Board also notes the document is dated May 14, 2014, nearly one year after the valuation date and that it is incomplete, displaying only partial information for the main building. The Board placed little weight on this information.

[28] The Board concludes that the Cost Approach to Value as presented by the Complainant lacks sufficient detail to convince the Board as to its accuracy. Further, the Board notes that the Respondent documented six sale comparables. This suggests there is no issue as to the availability of comparable sales. The Board accepts that properties are seldom identical and as such will require varying degrees of adjustment however the Board also understands that the sales exhibit sufficient similarity to allow a qualitative analysis of the results.

[29] The Board reviewed the Respondent's sale comparables, noting that the fifth and sixth sales were in question because of their south side locations. The Board took note of the Respondent's comment that there was only a one category difference in industrial group between the subject and those comparables and they did reflect the high end of the range. Overall, the Respondent's sale comparables support the Respondent's request for the Board to confirm the 2014 assessment at $333 per sq ft, or $2,337,000.

[30] The Board rejects the Complainant's issue that the Cost Approach best represented market value warranting a reduction of the assessment to $1,651,307.

Dissenting Opinion

[31] There was no dissenting opinion.

Heard June 25, 2014.
Dated this 7th day of July, 2014, at the City of Edmonton, Alberta.

Petra Hagemann, Presiding Officer

Appearances:

Adam Greenough, Altus Group
for the Complainant

Cherie Skolney, Assessor
Jason Baldwin, 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.

Appendix

Legislation

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.

Exhibits

C-1 – Complainant's Brief (43 pages)
R-1 – Respondent's Brief (47 pages)