

Central Alberta

Regional Assessment Review Board

CARB 0262 913 2017
Roll No. 30008800275

COMPOSITE ASSESSMENT REVIEW BOARD DECISION
HEARING DATE: August 9, 2017

PRESIDING OFFICER: G. Zaharia
BOARD MEMBER: Velma Keeler
BOARD MEMBER: Robert Schnell

BETWEEN:

GCM ENTERPRISES (MITCHELL GOLAY, DIRECTOR)

Complainant

-and-

THE CITY OF RED DEER

Respondent

This decision pertains to a complaint submitted to the Central Alberta Regional Assessment Review Board in respect of a property assessment prepared by an Assessor of The City of Red Deer as follows:

ROLL NUMBER: 30008800275
MUNICIPAL ADDRESS: B5, 53 Burnt Park Drive, Red Deer
ASSESSMENT AMOUNT: \$ 405,400

The complaint was heard by the Composite Assessment Review Board on the 9th day of August 2017, at The City of Red Deer, in the province of Alberta.

Appeared on behalf of the Complainant: Mitchell Golay, Director

Appeared on behalf of the Respondent: Mike Arnold, Senior Assessor, Assessment
Coordinator & Analyst
Maureen Cleary, Senior Assessor, Analyst

DECISION: The \$405,400 assessed value of the subject property is confirmed.

JURISDICTION

- [1] The Central Alberta Regional Assessment Review Board ["the Board"] has been established in accordance with section 456 of the *Municipal Government Act*, RSA 2000, c M-26 ["MGA"], and City of Red Deer Bylaw No. 3474/2011, *Regional Assessment Review Board Bylaw*.

PROPERTY DESCRIPTION AND BACKGROUND

- [2] The subject property, constructed in 2007, is an industrial warehouse condo in a six-bay warehouse building in the Burnt Lake Industrial Area with municipal address B5, 53 Burnt Park Drive. The condo is a two-storey unit with 2,156 square feet (sq. ft.) of office development on the main floor plus 1,200 sq. ft. of office development on the second floor, for a total of 3,356 sq. ft. of leasable area. There is an additional 956 sq. ft. of unfinished area on the second floor that is not assigned a value. The main floor area is assessed with a market rent of \$12.00/sq. ft. and the second floor area is assessed with a market rent of \$5.00/sq. ft. resulting in a weighted average market rent of \$9.50/sq. ft.
- [3] The subject property was assessed using the income approach resulting in a 2016 general assessment of \$405,400.

PROCEDURAL MATTERS

- [4] Neither party raised any objection to the panel hearing the complaint.
- [5] The Board Chair confirmed that no Board Member had any conflicts of interest with regard to the matters before them.

PRELIMINARY MATTERS

- [6] There were no preliminary matters raised by either party.

ISSUES

- [7] Is the \$405,400 assessment of the subject property too high considering the infrastructure issues as identified by the Complainant?

POSITION OF THE COMPLAINANT

- [8] The position of the Complainant is that the assessment of the subject property does not reflect the negative infrastructure issues that affect it.
- [9] In support of this position, the Complainant provided an explanation of the negative infrastructure issues that include: 1) crime occurrences, 2) ineffective mail distribution, 3)

criminal activity, 4) absence of emergency services, 5) access limitations, 6) environmental concerns, and 7) the Respondent not presenting representative comparable sales.

- [10] The Complainant verbally raised a concern of the annexation process that brought the industrial areas in question from the County of Red Deer to the City of Red Deer. It was suggested that the process was questionable and was not done correctly.
- [11] In closing argument and summation, the Complainant stated he lacked the City's access to information in preparing his disclosure, with the City having greater access to information than the property owner.
- [12] In conclusion, the Complainant requested that the assessment of the subject property be reduced from \$405,400 to \$300,000.

POSITION OF THE RESPONDENT

- [13] It was the position of the Respondent that the \$405,400 assessment of the subject property was fair and equitable.
- [14] The Respondent explained that property assessments are prepared in accordance with the requirements of the Municipal Government Act (MGA). R.S.A. 2000, c. M-26 and the Matters Relating to Assessment and Taxation Regulation (MRAT), A.R. 220/04, requiring that assessments reflect market value.
- [15] The MGA defines "market value" at s.1(1)n as *"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."*
- [16] Section 1.2 OF MRAT directs that *"an assessment of property based on market value a) must be prepared using mass appraisal, b) must be an estimate of the value of the fee simple estate in the property, and c) must reflect typical market conditions for properties similar to that property."*
- [17] All properties in Alberta are assessed using "mass appraisal" which is a process of valuing individual properties, by stratifying comparable properties into groups, identifying common property attributes within the groups and calibrating a uniform valuation model for each group using market information that incorporated those property attributes.
- [18] The Respondent utilizes the "income approach to value" as the method of assessing industrial warehouse condominium properties as it best reflects the typical actions of buyers and sellers when purchasing income producing properties. The assessment process removes the business enterprise value from the income and isolates the value attributable to the real estate.
- [19] The Respondent provided a brief history of the subject property from the time of purchase by the Complainant May 12, 2007 for the purchase price of \$325,000 to completion of improvements within the subject property. The Complainant had obtained two building permits, the first in 2011 and the second in 2013 for a combined value of \$110,030 for the

purposes of creating office space. The total cost incurred by the Complainant to bring the subject property to its current state is \$435,030.

- [20] The Respondent provided a chart of six leases of industrial warehouse condos in the Queens and Burnt Lake industrial areas that were signed during the three-year period from July 1, 2013 to June 30, 2016. The leasable areas of these six leases ranged from 1,143 to 5,900 sq. ft. resulting in a median of 1,601 sq. ft. The lease rates ranged from \$11.78 to \$16.25/sq. ft. resulting in a median lease rate of \$15.32/sq. ft. exceeding the \$9.50/sq. ft. weighted market rent applied to the subject property
- [21] The Respondent provided five sales of comparable properties in the Queens and Burnt Lake areas that occurred between February 20, 2014 and September 18, 2015. The gross unit areas of these properties ranged from 1,635 to 3,018 sq. ft. resulting in a median of 2,159 sq. ft. and the sale prices ranged from \$150.00 to \$175.40/sq. ft. exceeding the \$120.80/sq. ft. assessed value of the subject property. The calculated market typical cap rate ranged from 6.27% to 7.33% resulting in a median of 6.87%, slightly higher than the 6.75% cap rate used to capitalize the net operating income of the subject property.
- [22] The Respondent provided a general comment about the concerns raised by the Complainant regarding infrastructure issues. Although the Complainant implied that the Burnt Lake/Queens industrial neighbourhoods are less desirable than other industrial areas in the City of Red Deer, and that the assessments of properties in the Burnt Lake/Queens industrial neighbourhoods should be less than the assessments of similar properties in other Red Deer Industrial Neighbourhoods, the Complainant had not provided any market evidence to substantiate this claim.
- [23] To refute the Complainant's claim that the Burnt Lake/Queens Industrial Neighbourhoods are less desirable, the Respondent provided market evidence from similar properties in other industrial neighbourhoods. The details were from similar properties in the Edgar/Golden West industrial Neighbourhoods located across the QE II highway from the subject property.
- A) While the properties in the Burnt Lake/Queens Industrial Neighbourhoods were constructed between 2007 to the present time, the properties in the Edgar/Golden West Industrial Neighbourhoods were somewhat older, being constructed between 1997 and 2004.
- B) The median lease rate of six leases signed during the last three-year period for those properties in Burnt Lake/Queens Industrial Neighbourhood was \$15.32/sq. ft. for a median leasable area of 1,601 sq. ft. compared to the median lease rate of thirty-two leases that resulted in a median of \$11.57/sq. ft. for a median lease area of 2,340 sq. ft. for those lease comparable properties in the Edgar/Golden West industrial Neighbourhoods.
- C) The calculated typical market cap rate of 6.97% for properties sold in the Edgar/Golden West industrial Neighbourhoods was slightly higher than the 6.87% typical cap rate for properties sold in the Burnt Lake/Queens Industrial Neighbourhoods.
- [24] The Respondent advised that upon inspection of the subject property, it was discovered that there is an additional 360 sq. ft. of finished office space on the second floor. Should the proper leasable area have been used in valuing the subject property, the assessment

would have been \$427,500 instead of the \$405,400 assessed value. The Respondent was not suggesting that the current assessment be amended, stating instead that the correction would be made in the following year's assessment.

- [25] In conclusion, the Respondent requested the Board to confirm the assessment of the subject property at \$405,400.

REBUTTAL

- [26] The Complainant provided a rebuttal, emphasizing his position regarding the infrastructure issues affecting the subject property and commenting on some of the Respondent's positions.
- A) Without providing information on the details of the finishings in the properties, it is difficult to compare the subject property to the comparable properties.
 - B) The Complainant questioned the comparability of the comparable properties in regards to the size of the subject property compared to the sizes of the comparable properties, stating that the comparable properties were from 47% smaller to 75% larger than the 3,356 sq. ft. of the subject property.
 - C) The Complainant argued that the subject property enjoyed significantly less site development such as drainage, sidewalks, etc. than the comparable properties in the Queens Neighbourhood.
 - D) The Complainant argued that the assessment failed to incorporate comparison of insurance rates.
 - E) The Complainant argued that the comparison of properties in the Edgar/Gold West Industrial Neighbourhoods was a poor one since that neighbourhood enjoys direct mail delivery and the infrastructure (water, sewer, sidewalks) is developed, attributes lacking at the subject property.
 - F) The Complainant raised a concern that due to an engineering and City of Red Deer development oversight, the subject property has become liable for approximately \$40,000 for improperly engineered water/sewer services.

REASONS FOR THE DECISION

- [27] The Complainant based his request for a reduction in the assessment of the subject property as a result of negative infrastructure issues, the values of which are not quantifiable. The Complainant provided no market evidence to challenge the assessed value as ascribed to the subject property by the Respondent.
- [28] Although the Complainant stated he lacked the City's information in preparing his disclosure, s. 299 of the MGA addresses the property owner's right to "see or receive sufficient information to show how the assessor prepared the assessment of that person's property". The act defines "sufficient information" as

“(a) all documents, records and other information in respect of that property that the assessor has in the assessor’s possession or under the assessor’s control,

(b) the key factors, components and variables of the valuation model applied in preparing the assessment of the property, and

(c) any other information prescribed or otherwise described in the regulations.”

The Complainant provided no evidence that he attempted to obtain information pursuant to s.299 of the MGA, and therefore the Board had no reason to have any concern for the Complainant’s statement that he lacked information in preparing his disclosure.

[29] The Complainant had verbally raised a concern over the annexation process that brought the industrial areas in question from the County of Red Deer to the City of Red Deer, suggesting that the process was questionable and was not done correctly. The issue of annexation is not included in the matters that can be addressed by a Composite Assessment Review Board, and therefore the Board had no authority to address this concern.

[30] Property assessments are prepared in accordance with the requirements of the MGA and MRAT, requiring that assessments reflect market value which is defined by the MGA as *“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.”* Since the Respondent provided market evidence that buyers paid amounts that reflected the assessment of the subject property to purchase properties similar to the subject property, this suggested that the assessment of the subject property was fair and equitable.

[31] Section 1.2 of MRAT directs that *“an assessment of property based on market value a) must be prepared using mass appraisal, b) must be an estimate of the value of the fee simple estate in the property, and c) must reflect typical market conditions for properties similar to that property.”* The Board was persuaded that the assessment of the subject property reflected its condition as compared to the conditions of similar properties, and therefore reflected market value as defined in the MGA.

[32] All properties in Alberta are assessed using *“mass appraisal” which is a process of valuing individual properties, by stratifying comparable properties into groups, identifying common property attributes within the groups and calibrating a uniform valuation model for each group using market information that incorporated those property attributes.* The Board was persuaded that the assessed value ascribed to the subject property reflected the *“property attributes”* that the Complainant argued were not considered in the preparation of the assessment of the subject property.

[33] Since assessments reflect the market value of a property, the market would take into consideration any factors, positive or negative, that would impact the market value of the affected property. The Board was persuaded that based on market evidence, the assessment of the subject property reflected its market value, and was fair and equitable.

[34] The Board placed considerable weight on the market evidence provided by the Respondent. This included the comparable lease rates that showed the market lease rate applied to the subject property fell below the range of lease rates achieved by comparable

properties that were of the same age and at the same location. Although the Complainant argued that the comparable properties submitted by the Respondent lack comparability due to the variations in size, the resulting median lease rate for the median leasable area supported the principle of economies of scale which means a lesser lease rate would normally be paid for a larger space. It therefore follows that the median rental rate derived from the six comparable leases of \$15.32/sq. ft. for a median leasable area of 1,601 sq. ft. is a reasonable outcome compared to the subject property where the lesser applied market rent of \$9.50/sq. ft. is applied to a larger leasable area of 3,356 sq. ft.

- [35] Section 467 of the MGA addresses “decisions of assessment review board”. The Board is authorized to “*make a change to an assessment roll or tax roll or decide that no change is required*”. However, the Board “*must not alter any assessment that is fair and equitable, taking into consideration (c) the assessments of similar property or businesses in the same municipality*”. The Board was persuaded that the subject property was assessed in a manner similar to other similar properties in the municipality.
- [36] The Board was persuaded that the \$405,400 assessment of the subject property was fair and equitable.

Dissenting Opinion

- [37] There was no dissenting opinion.

Dated at the Central Alberta Regional Assessment Review Board, in the city of Red Deer, in the Province of Alberta this 28th day of August, 2017 and signed by the Presiding Officer on behalf of all the panel members who agree that the content of this document adequately reflects the hearing, deliberations and decision of the Board.


George Zaharia, Presiding Officer

This decision can be appealed to the Court of Queen’s Bench on a question of law or jurisdiction. If you wish to appeal this decision you must follow the procedure found in section 470 of the MGA which requires an application for judicial review to be filed and served within 60 days of being notified of the decision. Additional information may also be found at www.albertacourts.ab.ca.

APPENDIX

Documents presented at the Hearing and considered by the Board.

<u>NO.</u>	<u>ITEM</u>
C-1	Complainant's Disclosure (9 pages)
C-2	Complainant's Rebuttal (3 pages)
R-1	Respondent's Disclosure (29 pages)