

Central Alberta

Regional Assessment Review Board

CARB 0262 1166 2019

Complaint ID 1166

Roll No. 30001622665

COMPOSITE ASSESSMENT REVIEW BOARD DECISION

HEARING DATE: July 9, 2019

PRESIDING OFFICER: J. DAWSON

BOARD MEMBER: M. CHILLIBECK

BOARD MEMBER: D. DEY

BETWEEN:

ALTOMA INVESTMENTS LTD.

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 the Assessor for The City of Red Deer as follows:

ROLL NUMBER:	30001622665
MUNICIPAL ADDRESS:	5010 43 Street, Red Deer, AB
ASSESSMENT AMOUNT:	\$ 10,069,800

The complaint was heard by the Composite Assessment Review Board on the 9th day of July 2019, in Council Chambers of Red Deer City Hall within the city of Red Deer, in the province of Alberta.

Appeared on behalf of the Complainant:

C. HARTLEY Agent, Avison Young

Appeared on behalf of the Respondent:

J. MILLER Assessor, The City of Red Deer
D. STEBNER Assessor, The City of Red Deer

DECISION:

1. The complaint is accepted with a vacancy allowance of 22% and the subject property assessment is changed to \$8,417,100.

JURISDICTION:

2. The Central Alberta Regional Assessment Review Board ["the Board"] has been established in accordance with section 455 of the Municipal Government Act, RSA 2000, c M-26 ["MGA"], and The City of Red Deer bylaw.

PROPERTY DESCRIPTION AND BACKGROUND:

3. The subject property is an eight (8) story office building built in 1978 with surface and underground parking located on the south periphery of the downtown core at 5010 43 Street, Red Deer, AB.
4. The income approach to valuation was utilized with the following parameters:

Description	Area (Square Feet)	Rate	Potential Gross Income
Main Floor Office High-rise	10,544	\$14.00	\$147,616
Second Floor and Greater Office High-rise	66,093	\$13.00	\$859,209
Cellphone Antennae			\$14,650
Parking			\$54,912

5. A non-recoverable allowance of two percent (2%) was applied to the entire income. An operating cost allowance of \$11.00 per square foot and a vacancy allowance of fifteen percent (15%) was applied to the office rental income.
6. There are two tenants within the subject property that are deemed tax exempt.

PRELIMINARY MATTERS:

7. The Board Chair confirmed that no Board Member raised any conflicts of interest regarding the matters before them.
8. Neither party raised any objection to the panel hearing the complaint.
9. The Complainant and Respondent confirmed the complaint information before the board is solely regarding the vacancy allowance applied to the office rental income.
10. No additional preliminary or procedural matters were raised by any party. Both parties indicated that they were prepared to proceed with the complaints.

11. The Board confirmed the submissions of the parties and entered the Exhibits into the record. See Appendix for details.

ISSUES:

12. The Board considered the parties' positions and determined the following question is to be addressed within this decision:

Is the subject property experiencing a continuing history of high vacancy that needs to be captured within the assessment?

POSITION OF THE PARTIES:

Position of the Complainant

13. The Complainant reviewed the subject property including the area and rental rate of each space while outlining the spaces that are exempt from taxation.
14. The Complainant reviewed the rent rolls and the derived vacancy for each of the years; 2015, 2016, 2017 and 2018 as of July 1. The summarized report (corrected at hearing) found 22.6% vacancy in 2015, 21.0% vacancy in 2016, and 47.4% for both 2017 and 2018. The Complainant acknowledged that the rental rates achieved are higher than assessed; however, the leases are somewhat dated and the most recent lease in 2016 is close to the assessed rate.
15. The Complainant explained that the valuation date is July 1 of the year prior to the taxation year and that its vacancy survey was conducted on that day each year; however, the 47.4% vacancy occurred in September 2016, shortly after the valuation date of July 1, 2016 and that the actual chronic vacancy is just 2 months shy of the three reporting periods typically seen for the application of chronic vacancy.
16. The Complainant reviewed the appropriate reporting method which requires the consistent application of reporting. If a new tenant is known on July 1 but has not moved in, then the space is reported as vacant. If you consider a future tenant, then you must consider a future vacancy in a consistent manner.
17. At the hearing the Complainant argued that the chronic vacancy experienced within the subject property is a result of its location, where all other properties in the stratification are concentrated in the downtown core within a two to three block area, whereas the subject property is on the southern periphery and at least five blocks from the closest comparable property.
18. The Complainant reviewed several decisions where composite assessment reviews boards in other jurisdictions applied a chronic vacancy allowance in similar situations.
19. The Complainant requested an overall assessment of \$4,167,000 based on a chronic vacancy allowance of 40% versus the typical vacancy of 15% applied by the Respondent.

Position of the Respondent

20. The Respondent reviewed the subject property including street level and aerial photographs depicting its previous condition and the existing condition after a recent renovation.
21. The Respondent explained that it does not currently apply a chronic vacancy adjustment to high-rise office buildings. Additionally, the Respondent argued that the consideration for applying a chronic vacancy allowance needs to be considered with an understanding of the underlying reasons. Stating; "Simply because a property is experiencing above average vacancy does not constitute the application of chronic rate for assessment valuation".
22. The Respondent argued that the Complainant has failed to provide an analysis and reasoning to the cause of the subject property's above average vacancy.
23. The Respondent reviewed the existing tenancy of each space with actual rents and assessed rental rates to suggest that the above average rents achieved balance out the higher than typical vacancy.
24. The Respondent provided a chart to show that the application of chronic vacancy allowance on a mass appraisal typical assessment leads to nonsensical assessment values, such as; \$1 at 57.6% vacancy and negative \$10 million at 100% vacancy.
25. The Respondent indicated that the subject property assessment has decreased each of the last three years to account for the unfavourable market conditions and that no further adjustment is required. In fact, the assessment has decreased by more than \$1.2 million at the same time a renovation was completed for \$1.75 million.
26. The Respondent reviewed the vacancy of the subject property since 2010 showing that since 2013 the vacancy has exceeded 21.0%. The Respondent argued that a development permit application in July 2018 for a future tenant in the autumn of 2018 has caused it to report a vacancy value of 40.8% for 2018 versus the 47.4% reported by the Complainant. The Respondent believed that the space was no longer available to the marketplace as of July 1, 2018.
27. The Respondent provided equity comparable properties to show the consistent application of the 15% vacancy allowance. The equity comparable properties were presented with a value in dollars per square foot, which was argued to demonstrate that the subject property has amongst the lowest value per square foot in the city. Another value indication was provided to demonstrate what would happen if the Board accepted the Complaint with 40% vacancy.
28. The Respondent provided sales comparable properties of different classes of office buildings to illustrate that the sales do not support the requested assessment even when considering buildings that typically are valued lower, or a dollars per square foot basis, than high-rise office buildings.
29. In summation, the Respondent reviewed its concerns, provided some composite assessment review board decisions in its favour, and explained some information on vacancy allowances. The Respondent requested that the assessment be confirmed and unchanged at \$10,069,800.

BOARD FINDINGS and DECISION

30. The Board finds that determining vacancy requires a consistent methodology. Treating a space that may no longer be on the market due to a development permit application as rented, allows for

treating a space that will imminently be on the market as vacant. The Board finds the best evidence includes actual vacancy on a consistent date (the valuation date) of review.

31. The Board considered the vacancy of a property to be chronic when the actual vacancy is considerably different when compared to the typical vacancy within its stratification. The Board was able to calculate a typical vacancy of 10.6% of the buildings within the same stratification when the subject property is removed. This demonstrated that the subject property's above average vacancy is making a substantial change to the typical being applied to the entire group within the stratification.
32. The Board finds the actual vacancy of the subject property:

2014	2015	2016	2017	2018
22.6%	22.6%	21.0%	47.4%	47.4%

33. The Board is not aware of a legal definition that describes when a chronic vacancy condition should be applied. The Board has determined that three years of vacancy history is a realistic period to consider a space to be experiencing chronic vacancy. Additionally, while vacancy may occur near a valuation date, for consistency, the same date must be considered when making a determination.
34. The Board finds that an average or median of the last three years is an appropriate methodology; the Board adjusted the 2017 and 2018 vacancy rates for the space vacated in September 2016 and determined the average for the three years. With the mitigating factor of an extensive exterior renovation as being a possible cause, the Board finds the value of 22.0% as the best indication of the chronic vacancy within the subject property, which is the average of 2014, 2015 and 2016.

DECISION SUMMARY

35. The complaint regarding the chronic vacancy within the subject property is accepted and a vacancy allowance of 22.0% has been applied Resulting in an overall value of \$8,417,100.
36. Dated at the Central Alberta Regional Assessment Review Board, in the city of Red Deer, in the Province of Alberta this 09th day of August, 2019 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.


 FOR J. DAWSON
 Presiding Officer

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 not more than 60 days after the date 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>
1.	A.1	- Hearing Materials provided by Clerk (8 pages)
2.	C.1	- Complainant Disclosure (65 pages)
3.	R.1	- Respondent Disclosure (87 pages)