

CARB 0262 1016 2018

Complaint ID 1016

Roll No. 30001633735

COMPOSITE ASSESSMENT REVIEW BOARD DECISION

HEARING DATE: September 25, 2018

PRESIDING OFFICER: J Biollo

BOARD MEMBER: V Keeler

BOARD MEMBER: J Kline

BETWEEN:

FIRST RED DEER PLACE

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: 30001633735
MUNICIPAL ADDRESS: 4911 51st Street
ASSESSMENT AMOUNT: \$15,229,700

The complaint was heard by the Composite Assessment Review Board on the 25th day of September 2018, at The City of Red Deer, in the province of Alberta.

Appeared on behalf of the Complainant: Ken Heywood

Appeared on behalf of the Respondent: Cale Green, Revenue and Assessment Services for the City of Red Deer

DECISION: The assessed value of the subject property is confirmed to \$15,229,700.

JURISDICTION

[1] 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 No. 3474/2011, *Regional Assessment Review Board Bylaw* (November 14, 2011).

PROPERTY DESCRIPTION AND BACKGROUND

[2] The subject property is a six-storey, 81,720 square foot (sf) high rise office building zoned Commercial (C1), City Centre. The subject property (subject) has 22 tenant units.

[3] The lease rates, parking income, and operating cost allowance for this property are not under appeal.

PRELIMINARY MATTERS

[4] The Board Chair confirmed that no Board Member raised any conflicts of interest regarding matters before them.

[5] Neither party raised any objection to the panel hearing the complaint.

[6] The Complainant and Respondent confirmed the complaint information before the board. The Board accepted the documents as presented.

[7] No additional preliminary or procedural matters were raised by any party. Both parties indicated that they were prepared to proceed with the complaints.

[8] The Board confirmed the submissions of the parties and entered the following Exhibits into the record:

- | | |
|-----|---|
| A.1 | Hearing materials provided by the Clerk |
| C.1 | Complainant submission |
| C.2 | Complainant rebuttal |
| R.1 | Respondent submission |

ISSUES

[9] The Board considered the parties’ positions and determined the following questions are to be addressed within this decision:

- a) Is the Capitalization Rate for the subject property fair and equitable when compared to other comparables properties?
- b) Does the market typical vacancy rate of this property warrant a chronic vacancy rate be applied?

POSITION OF THE PARTIES

Position of the Complainant

- [10] The Complainant stated the objective was to argue that the 2018 assessment is overstated for the following reasons:
- Chronic Vacancy (since 13,369 sq. ft. area was vacated eight years ago)
 - Capitalization Rate (seeking 6.43%); and
 - Probable Price: Industry Measurement
- [11] The Complainant stated based on their analysis, the probable value of the property is \$10,750,000.
- [12] The Complainant stated the Assessor used 10% vacancy rate which is lower than the actual vacancy. The probable value of the vacancy rate is 19% (property value = \$13,332,800).
- [13] The Complainant submitted that the municipality had assessed the subject property in a classification that included one and two storey buildings; owner occupied and partially owner occupied; and commented that properties identified as high-rise buildings should be classified for mass appraisal under a different group.
- [14] In support of their position, the Complainant submitted third party documents outlining vacancy rates in the subject property, demonstrating 24.28%; chronic vacancy; average NOI is 6.2%; and calculations using the same principals as Assessor with market value of \$10,620,694.
- [15] The Complainant summarized that public spaces were upgraded in 2016 to make the subject more appealing, although they have yet to rent any additional space; that there is a stagnant market for office space in Red Deer; and that due to the cost associated with vacant space, this supports their position that the use of existing cash flow is the most appropriate source for probable selling price and appropriate for assessing.
- [16] The Complainant requested that the 2018 assessment for the subject be revised to \$10,750,000.

Position of the Respondent

- [17] The Respondent introduced the property as a six-storey office building in downtown Red Deer; commented that the lease rates, signage and parking income, and operating costs for this property are not under appeal; that the City of Red Deer determines a stabilized vacancy allowance by analyzing the returns received during the annual Request for Information period; and provided five sales of offices within the city showing market typical Capitalization Rates at par or considerably less than the 7.5% applied to the subject property.
- [18] The Respondent outlined the methodology used for valuing properties and reiterated that legislation requires the use of mass appraisal in establishing assessments, and that they applied the assessment rates in a fair and equitable manner.
- [19] The Respondent stated that ‘outside influencing factors’ are not considered as this information to other approaches such as lease rates of comparable properties to factor in vacancy; that Capitalization Rates are calculated based on sales; and that vacancy of the overall market is per Mass Appraisal legislation.
- [20] The Respondent further noted that vacancy allowance was derived from returns received during the annual Request for Information (RFI) period; that the total RFI percentage of return was 78% in 2017; and that 11.34% was the total vacancy rate in 2017.
- [21] The Respondent conducted a capitalization rate analysis for the 2017 assessment year, to which the properties were used to derive the capitalization rates for office buildings in Red Deer. The Respondent verified all sales were arm’s length and usable for valuation purposes. The sales are summarized below:

	<u>Gross Building Area</u>	<u>Cap Rate</u>
• 4806 – 51 st Avenue	8,760 sf	7.4%
• 4806 – 51 st Avenue	8,760 sf	7.5%
This property transacted twice – once in December 2014 and again in January 2017		
• 4817 – 48 th Street	15,066 sf	6.08%
This property transacted in December 2017. It is located less than a block away from the subject property		
• 4620 – 48 th Avenue	6,722 sf	5.07%
This property transacted in February 2016		
• 4909 – 49 th Street	148,178	7.04%
This property transacted in December 2017 (post-facto) and was used for trending		

[22] The Respondent requested that the subject assessment be confirmed at \$15,229,700.

REBUTTAL

[23] The Complainant reiterated the objective of the complaint was to argue that the 2018 assessment is overstated for the following reasons: Chronic Vacancy; Capitalization Rate; Probable Price; and stated the purpose of their rebuttal was regarding the interpretation of Mass Assessment.

[24] The Complainant rebutted that 'in-control-of owners' may react to market conditions differently regarding vacancy rates; that the Assessor does not recognize the external environment that owners must work with; that the downtown core faces a challenging environment; that the Assessor used a Vacancy Rate of 10% when the actual rate for the subject property is 11.34%; and that the Complainant's analysis supports 19.77% for properties classified as High Rise 3 (18.82% using the assessors numbers).

[25] The Complainant further rebutted that the Assessor had chosen a theoretical Capitalization Rate of 7.5% noting that comparable sales from 2016 & 2017 support a range between 5.07% to 7.50% (average 6.43%); and that a public market REIT transaction of 6.2% supported their request for a revised assessment using a Capitalization Rate of 6.43% (probable price for property = \$13,164,400).

SURREBUTTAL

[26] The Respondent did not submit a written surrebuttal or provide an oral presentation in response to the rebuttal.

BOARD FINDINGS and DECISION

[27] The Board carefully reviewed the evidence provided by both parties including the vacancy rate, NOI (offsite parking (removed as it was not part of the subject property)), Capitalization Rate; Building Classification, and probable price.

[28] The Board considered the Complainant's Capitalization Rate of 6.43% in relation to how it was derived (by taking the Assessors sales comparables and taking an average), however, the Board was less satisfied that this was an accurate reflection of market typical Capitalization Rates.

[29] The Board considered the Complainant's arguments in relation to vacancy rates, lease rates, the impact of a stagnant market in the downtown core; and consideration of the building classification (including property age, location, number of floors, quality of income stream) of the subject property. However, the Board was less satisfied these were an accurate reflection of mass

appraisal theories or that they supported the claim that the assessment was not applied in a fair and equitable manner.

[30] The Board placed more weight on the Respondent's evidence regarding a 78% rate of return on Request for Information documentation.

[31] The Board is more satisfied that the Respondent's sales comparables are more comparable to the subject, and that they show market typical Capitalization Rates.

- The Complainant did not provide any comparables for consideration in their Complaint Disclosure.

[32] The Board accepts the methodology used by the Respondent for assessment purposes.

[33] The Board confirms the assessment at \$15,229,700; confirms the Capitalization Rate of 7.50%; and confirms the Vacancy Rate at 10%.

DECISION SUMMARY

[34] In coming to its conclusion, the Board has reviewed carefully the provisions of the *Municipal Government Act* ("MGA"), the *Matters Relating to Assessment Complaints Regulation* ("MRAC") and the *Matters Relating to Assessment and Taxation Regulation* ("MRAT").

[35] The Board finds that the Respondent values are confirmed.

[36] Dated at the Central Alberta Regional Assessment Review Board, in the City of Red Deer, in the Province of Alberta this 25th day of October 2018 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.

[37] It is so ordered.



Jacqueline Biollo
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
2. C.1	Complainant submission
3. C.2	Complainant rebuttal
4. R.1	Respondent submission