

**CALGARY
ASSESSMENT REVIEW BOARD
DECISION WITH REASONS**

In the matter of the complaint against the Property assessment as provided by the *Municipal Government Act*, Chapter M-26, Section 460(4).

between:

Safe Self Storage Inc., COMPLAINANT

and

The City Of Calgary, RESPONDENT

before:

***W. Kipp, Presiding Officer
D. Morice, Board Member
A. Wong, Board Member***

This is a complaint to the Calgary Assessment Review Board in respect of Property assessment prepared by the Assessor of The City of Calgary and entered in the 2010 Assessment Roll as follows:

ROLL NUMBER: 092032903

LOCATION ADDRESS: 4203 – 17A Street SE, Calgary AB

HEARING NUMBER: 55832

ASSESSMENT: \$1,750,000

This complaint was heard on the 21st day of July, 2010 at the office of the Assessment Review Board located at Floor Number 4, 1212 – 31 Avenue NE, Calgary, Alberta, Boardroom 2.

Appeared on behalf of the Complainant:

- Richard Hoffman

Appeared on behalf of the Respondent:

- Don Kozak

Property Description:

Two storey industrial warehouse building with a full basement, built circa 1961. Assessment records show a footprint floor area of 6,590 square feet and a rentable building area of 9,885 square feet. The building occupies a 0.36 acre industrial lot in Bonnybrook Industrial, indicating a site coverage ratio of 42.25%. The building is occupied as a self storage facility.

Issues:

The Complainant raised the following matters in section 4 of the complaint form:
Assessment amount

The Complainant also raised the following specific issues in section 5 of the Complaint form:
An August 2009 appraisal of the property indicated a value of \$1,285,000.

Issue: The Assessment Amount is too high

Complainant's Requested Value:

The requested assessed value shown on the Complaint Form was \$1,000,000 to \$1,200,000. At the hearing, the Complainant requested an assessed value of \$814,215 but admitted that value was based on capitalizing the current (2010) income from his self storage business. When questioned, he suggested that the value from the July 2009 appraisal - \$1,285,000 – would be the absolute maximum value.

Board's Decision in Respect of the Issue:

The Complainant provided a copy of an appraisal of the subject property that had been completed for mortgage financing use with an effective date of July 21, 2009. The appraiser's opinion of market value was \$1,285,000. The appraiser had valued the property by the income approach using the income that could be derived from the self-storage units inside and outside of the building. The net operating income was capitalized at a capitalization rate of 10.0%. This rate was chosen by the appraiser, based on characteristics of the property, after analyzing six sales of industrial properties that had occurred between September 2008 and July 2009. Two of the six were "pending" sales. One of the comparables, located in Airdrie, Alberta was a modern self-storage facility, purpose built in 2006. This was one of the pending sales. Its negotiated sale price indicated

a capitalization rate of 8.68%. The price represented \$113 per square foot of building area. Overall, the range of capitalization rates from the six sales was from 6.84% to 8.68%.

The Complainant did not provide data pertaining to sales for use in a direct sales comparison, which is the basis of assessment valuation used by the City of Calgary for industrial properties. Within the appraisal report were sales of properties used for the extraction of capitalization rates.

For the 2010 assessment, the City relied upon 156 industrial sales that occurred over the two year period leading up to the July 2009 valuation date. The Respondent provided data on two industrial properties, considered to be the most comparable to the subject as support for its assessed value of \$177.25 per square foot of building area. By way of rebuttal, there was detail on two of the sales from the Complainant's appraisal. One of those two sales involved a property that was substantially larger than the subject and therefore could not be realistically compared to it. The other property appeared to have merit as a comparable. Details of the three useful sales are summarized in the following table:

	SUBJECT	CITY 1	CITY 2	COMP. 1
Address	4203-17A St SE	5720-1 St SW	4020-7 St SE	4301-9 St SE
Region	Central	Central	Central	Central
Lot Area	0.36 acre	0.74 acre	0.74 acre	0.92 acre
Bldg Area	9,885 sq. ft.	11,020 sq. ft.	11,288 sq. ft.	14,630 sq. ft.
AYOC	1961	1963	1957	1964
Site Cover	42.25%	34.00%	34.83%	36.63%
Finish %	46%	9%	11%	44%
Date of Sale		Sept 2007	June 2007	April 2009
Time Adj Price		\$2,118,651	\$1,694,921	\$1,831,546
T.A. \$/SF		\$192	\$150	\$125

Shaded cells are most comparable to subject.

The Complainant questioned the Respondent on several characteristics of the subject and comparable properties. When asked about comparability of one storey buildings to two storey buildings, the Respondent could not provide evidence to support any position; however, he did respond that single storey industrial buildings are more prevalent in the market. The Complainant, in response to a question, stated that the rents for second floor storage units in the subject are approximately one half of the rents attainable for main floor units.

With regard to location, the Complainant questioned the comparability of the subject which is located in Bonnybrook Industrial, near the City of Calgary sewage treatment plant to properties in Manchester and Highfield. The Respondent stated that the assessment model finds that all Central region properties are similar with respect to location and that sub-location adjustments are statistically insignificant.

When asked why the Respondent did not include the April 2009 sale of 4301 – 9 Street SE in evidence, the response was that there were differences in age, building size and use (multi-tenant versus single tenant) that precluded its inclusion. In response to a subsequent question, the Respondent stated that there is a minor adjustment attributed to single tenant buildings when comparing to multi-tenant buildings.

The subject building is shown on the assessment summary as having 46% "finish". The

Complainant stated that the finish includes a small office area plus a significant amount of "chipboard" partitioning between the rental storage units. Otherwise, the floors are plain concrete and there is no finished ceiling. The Respondent advised that the assessment model does not distinguish between type or quality of finish. He added that in the majority of two storey industrial buildings the second floor would be finished as offices. No explanation was offered about the way in which the assessment model handles second floor space that is not office space.

Findings

In view of the above, the CARB finds as follows with respect to the Issue:

The CARB places little weight on the appraisal provided by the Complainant. That appraisal valued the property as a going concern self storage facility whereas the assessment valuation considered the property as an industrial warehouse without regard to its current use. The appraiser valued the property solely on the basis of income from the self storage units. There was reasoning leading to vacancy and expense amounts and ratios that the Board could accept but the reasoning for selecting a 10% capitalization rate was unacceptable. Six income producing industrial properties were examined. One of those was a modern style self storage property in the City of Airdrie. The indicated capitalization rate from this sale was 8.68%, the highest of the six rates. The remaining five sales were Calgary industrial warehouses. Capitalization rates from the sales ranged from 6.84% to 8.68% and averaged 7.44%. A number of points that influenced the appraiser's final rate selection were mentioned but not explained. These included location, age and quality, the nature of the self storage business, costs of converting the building to another use and levels of interest rates and availability of capital. The chosen capitalization rate was 10%. The move from the actual rates to 10% is a major move which has significant impact on the indicated value. If the same net operating income had been capitalized at the average 7.44%, the value would have been \$1,725,000. At the highest rate of 8.68%, the value would have been \$1,478,000.

With respect to the sales comparables in evidence, the CARB has concern about those being the most comparable from amongst the 156 sales analyzed by the Respondent. Given the characteristics of the subject that would be important in making comparisons, such as two storey versus one storey building type and the quality, type and extent of interior finish, the CARB finds that more detail would have been useful in order to reliably compare properties.

While evidence and discussion of two storey industrial buildings was minimal, the Board is of the opinion that second floor industrial space is not as valuable on a square foot basis as ground floor space. The fact that very few two storey industrial buildings are constructed today supports that opinion. The assessment is based on total floor area regardless of its first or second floor location.

Close examination of the sales in evidence indicates to the Board that the sale at 4301 – 9 Street SE is as comparable, if not more comparable to the subject than those put forward by the Respondent. Firstly, it is a current sale requiring minimal if any time adjustment. The age difference is just three years which is not significant. The Respondent has stated that the differences between single tenant and multi-tenant occupancy are minimal. The Respondent did time adjust the 2007 sales in its evidence but there was no support for the adjustment.

When there is a significant portion of the building interior that is finished, the Board is of the opinion that the type and quality of finish is of more relevance than in a building where there is only a small amount of finish. If the majority of the "finish" is plywood partitioning, it does not seem reasonable to

value that as full office finish which the Respondent says is done by the assessment model.

Size of building is definitely a factor influencing value but, again, the two storey aspect of the subject will impact on the comparisons and the value.

The sale price of 4301 – 9 Street SE was \$125 per square foot. While no data is available to make specific adjustments, it is apparent that this price would be adjusted upwards for the variance in building area (14,630 versus 9,885 square foot) but downward for the fact that one half of the subject's total area is on the second floor. Further, the type and quality of interior finish would most likely require a downward adjustment.

Board's Decision:

The CARB finds that the property at 4301 – 9 Street SE is the best sale evidence. Having regard to its date of sale and physical characteristics as described, the Board accepts its unit price of \$125 per square foot as indicative of the value of the subject.

The 2010 assessment is reduced from \$1,750,000 to \$1,235,000.

DATED AT THE CITY OF CALGARY THIS 5th DAY OF AUGUST 2010.



W. Kipp
Presiding Officer

An appeal may be made to the Court of Queen's Bench on a question of law or jurisdiction with respect to a decision of an assessment review board.

Any of the following may appeal the decision of an assessment review board:

- (a) *the complainant;*
- (b) *an assessed person, other than the complainant, who is affected by the decision;*
- (c) *the municipality, if the decision being appealed relates to property that is within the boundaries of that municipality;*
- (d) *the assessor for a municipality referred to in clause (c).*

An application for leave to appeal must be filed with the Court of Queen's Bench within 30 days after the persons notified of the hearing receive the decision, and notice of the application for leave to appeal must be given to

- (a) *the assessment review board, and*

(b) *any other persons as the judge directs.*