



**Composite Assessment Review Board**

**REGIONAL MUNICIPALITY OF WOOD BUFFALO BOARD ORDER CARB 015-2011**

**IN THE MATTER OF A COMPLAINT** filed with the Regional Municipality of Wood Buffalo Composite Assessment Review Board (CARB) pursuant to Part 11 of the *Municipal Government Act* being Chapter M-26 of the Revised Statutes of Alberta 2000 (Act).

**BETWEEN:**

Altus Group- Complainant

- a n d -

Regional Municipality of Wood Buffalo - Respondent

**BEFORE:**

Members:

J. Noonan, Presiding Officer

E. McRae, Member

Administration:

N. MacDonald, Clerk for the Assessment Review Boards

A. Rogers, Senior Legislative Officer

A hearing was held on August 26, 2011 in Fort McMurray in the Province of Alberta to consider a complaint about the assessment of the following property:

<b>Roll Number</b>	<b>Address</b>	<b>Assessment</b>	<b>CARB File</b>
71005900	9920 Franklin Avenue	\$4,331,000	11-078

**PART A: BACKGROUND AND DESCRIPTION OF PROPERTY UNDER COMPLAINT**

The subject property is a 2-storey bank building built in 2002 on .358 acres in downtown Fort McMurray. The main floor measures 5027 sq.ft. and the 2nd floor has 4058 sq.ft. The assessment was prepared using the capitalized income approach, with a market typical lease rate of \$38 per sq.ft. applied to both floors, 3% allowances for vacancy and management/structural, and a cap rate of 7.5%.

**PART B: PROCEDURAL or JURISDICTIONAL MATTERS**

The third member of the panel scheduled for the August 26 hearings was unable to attend. The parties raised no objection to a two-member panel. Section 458(2) of the Municipal Government Act specifies a quorum of the composite assessment review board as the provincial member and one other member. The requirements of a quorum being met, the hearing proceeded.

**PART C: ISSUES**

The evidence and argument presented at the hearing dealt with a single issue, annual rent rate, and if the Complainant's \$30 requested rate were applied, the requested assessed amount was \$3,419,230 prior to rounding.

Issue: Should the annual rent rate for the subject be reduced from \$38 to \$30?

**Summary of the Complainant's Position:**

The Complainant presented a list of 7 Fort McMurray bank leases for space sizes ranging from 3053-9775 sq.ft. Two leases originated in 2009, 2 in 2008, and 1 each in 2004, 2001 and 1999. The rents ranged from \$23.75 to \$48 and produced an average of \$33.35 and median \$32. The \$48 rate was for a new building with a lease commencement date of Oct. 28, 2008. The lowest rate was \$23.75, from a lease dating to 2001. The best comparable was another 2-storey property at 8553 Manning Avenue which had a recent December 2009 lease at \$27 per sq.ft. This property was very similar to the subject and the best indicator of value. A \$30 lease rate would be fair for the subject.

**Summary of the Respondent's Position:**

The Respondent's evidence package addressed most of the issues originally raised on the complaint form. For the sake of brevity, highlighted here are the major points relating to the lease rate issue and market value.

A scarcity of land in Fort McMurray pressures both commercial sales prices and lease rates. Commercial property commands a value in the range of \$400-\$500 per sq.ft. and current lease rates for average to good retail space range from \$30-\$50 per sq.ft. In support of the market value range, 4 sales in the year prior to valuation date were presented: two larger properties of 2 and 8.4 acres sold for \$445 and \$393 per sq.ft. of improvement; closer in size to the subject were parcels of 1 and 0.6 acres, building sizes of 12,735 and 8370 sq.ft., with sales prices of \$455 and \$513 per sq.ft. In comparison, the subject's assessment is \$476 per sq.ft. The 8370 sq.ft. sale at \$513 per sq.ft. is the best sales comparable, also located on Franklin Avenue close to the subject. Franklin Avenue properties command a premium in the local market.

Addressing assessment equity, a table of 10 banks including the subject was presented. The newest banks in Fort McMurray with the best condition, and superior to the subject, are assessed at a typical lease rate of \$46 and allowances of 2% for vacancy and management/structural. With a cap rate of 7.25%, these properties are valued at \$609 per sq.ft. Four examples were listed, all built in 2008. The majority of banks in Fort McMurray are assessed at a market rent rate of \$38. There were 6 examples presented, including the subject. These properties are in good condition, were built relatively recently, and are assessed at \$476 per sq.ft. They receive 3% allowances for vacancy and management/structural, and a cap rate of 7.5%.

In preparing an assessment, current market lease rates must be used. The Respondent noted that if one only considered the Complainant's leases dated 2008 and 2009, the average lease rate is

\$35.50. This is supportive of the assessed value, even before considering that rates have subsequently increased.

**Findings and Reasons:**

1. The assessment is fair and equitable.
2. The lease rate should not be altered.

The Assessor in this case clearly had a data advantage. Market value was shown, as was equitable assessment. Section 467(3) of the Municipal Government Act mandates an assessment review board must not alter any assessment that is fair and equitable, taking into consideration...the assessments of similar property in the same municipality.

The strongest point raised by the Complainant was the December 2009 lease signed for the premises at 8553 Manning Avenue. At \$27 per sq.ft., this was the second lowest lease rate shown. Noteworthy was another lease from a property at 8540 Manning Avenue, so literally across the street, that leased for \$28 per sq.ft. for a larger bank building, 9775 sq.ft. versus 6910 sq.ft. at 8553 Manning. Ordinarily, these two indicators of value would be quite persuasive, pointing to a narrow range of lease rates presumably negotiated between unrelated parties. The difficulty is that the \$27 rate was negotiated a little more than 10 years after the \$28. The \$28 lease has a 15 year term, and so it could well be into a second step-up phase, but details of the lease were not in evidence. Consequently, the CARB cannot speculate as it could also be possible that the same rate was specified for the entire term. However, the \$27 rate negotiated at 8553 Manning seems a particularly good deal for the tenant in light of the other leasing evidence and the sales evidence.

To illustrate that observation, the CARB calculated a proforma capitalized income using \$30 and \$27 lease rates and the typical parameters for vacancy, management and cap rate, and then a per sq.ft. value. At a \$30 and \$27 lease rates, the per sq.ft. values are \$376 and \$338. In comparison to the \$455 and \$513 sales prices seen for downtown properties, there is a serious disconnect. The CARB concludes that the \$38 assessed lease rate, which generates a per sq.ft. value of \$476 is a better reflection of the market reality in Fort McMurray than the Complainant's request.

**PART D: DECISION**

The complaint is denied and the assessment confirmed.

Dated at the Regional Municipality of Wood Buffalo in the Province of Alberta, this 23<sup>rd</sup> day of September, 2011.

FOIP Act s.17(1)



J. Noonan, Presiding Officer

**APPENDIX "A"**

**DOCUMENTS RECEIVED AND CONSIDERED BY THE CARB:**

1. Exhibit C1 Evidence Submission of the Complainant, 98 pages
2. Exhibit R2 Commercial Property 2011 Assessment Brief, 49 pages

**APPENDIX 'B'**

**ORAL REPRESENTATIONS**

<b>Person Appearing</b>	<b>Capacity</b>
1. Walid Melhem	Tax Consultant, Altus Group, Agent for the Complainant
2. Ryan Sweeney	Assessor, Regional Municipality of Wood Buffalo
3. Matthew Moore	Assessor, Regional Municipality of Wood Buffalo