

**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-26.1, Section 460(4).

between:

Altus Group Ltd., COMPLAINANT

and

The City Of Calgary, RESPONDENT

before:

Paul G. Petry, PRESIDING OFFICER

John Mathias, MEMBER

Robert Kodak, 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: 201276839

LOCATION ADDRESS: 160 Quarry Park Boulevard S.E

HEARING NUMBER: 59844

ASSESSMENT: \$17,760,000

This complaint was heard on 8 day of June, 2010 at the office of the Assessment Review Board located at Floor Number Floor, 1212 – 31 Avenue NE, Calgary, Alberta, Boardroom 4.

Appeared on behalf of the Complainant: D. Chabot

- **Altus Group Ltd. - Complainant**

Appeared on behalf of the Respondent: A Jerome and T Woo

- **The City of Calgary - Respondent**

Property Description and Background

The subject property built in 2009 is a 58,040 square foot class A- suburban office building located at 160 Quarry Park Boulevard S.E. Calgary. The assessment for the subject building shows that the Respondent in applying the capitalized income approach has used a lease rate of \$25 per sq. ft, parking income based on a monthly rate of \$100 per stall and allowed for vacancy at 6%. These matters are the matters in dispute. The parties advised the CARB that their evidence and arguments respecting the issues noted below would be the same for a number of other complaints being brought forward in this set of hearings. Therefore the CARB decision and reasons will be the same where the evidence and arguments were carried forward by the parties.

Issues:

1. What is the correct lease rate to be used in valuating the subject property?
2. Is the vacancy allowance of 6% typical of vacancy in the south east sector of the City for this property type?
3. Is the monthly parking rate of \$100 per stall excessive of the market for suburban office?

Other issues were raised in the Complainant's complaint filed with the Assessment Review Board (ARB) on March 4, 2010. The only issue that the parties brought forward in the hearing on June 8, 2010 before the Composite Assessment Review Board (CARB) are those referred to above, therefore the CARB has not addressed any of the other issues initially raised by the Complainant on schedule 1.

Board's Decision in Respect of Each Matter or Issue:

Issue 1 - The typical lease rate to be applied to the subject property is \$24.00 per sq. ft.

Issue 2 - The typical vacancy rate to be applied to the subject property is 9.5%.

Issue 3 - The typical monthly parking rate to be applied to the subject property is \$100.00 per stall.

Reasons for the Decision:**Typical Lease Rate**

The Complainant provided a table of assessments for five comparable properties showing rates ranging from \$21.00 to \$22.00 and one space at \$25.00. The Complainant also provided five lease rate comparables, two from Quarry Park and three from Lincoln Park on Richard Road S.W. The Complainant also included the subject in their calculations which showed the Quarry Park rates to have a median rate of \$24.35 per sq. ft. and the Lincoln Park properties to have a median rate of \$23.00 per sq. ft. All the leases were shown to have been signed in the later half of 2008 and the first quarter of 2009. The lease rate for the subject is shown on the RFI to be \$23.25 which includes parking. The Complainant extracted the parking component reducing the rate to \$22.43 and it is this rate that was included in their calculated median. Based on this evidence the Complainant requested that a rate of \$23.00 per sq. ft. be applied to determine the market value of the subject as of July 1, 2009. The Complainant argued that the leases the Respondent relies on to support their rate of \$25.00 used in the assessment are post-facto the valuation date and are of smaller spaces which would typically lease at a higher rate.

The Respondent argued that Quarry Park is a premier office park and is able to achieve some of the highest lease rates within the suburban office category. The Respondent provided their analysis of lease rates which are exclusive to Quarry Park and include four properties with rates ranging from \$23.25 to \$25.95 per sq. ft. The lease rate at \$25.95 was for 8,425 sq. ft. and was signed in September 2009. The Respondent also provided two other leases one signed in November 2009 at \$23.95 and one signed in December at \$25.95. The Respondent argued that a lease signed in April 2009, closest to the valuation date July 1, 2009, is for \$24.97. Other leases signed after the valuation date are at \$25.95 which shows an upward trend that supports the typical rate of \$25.00 per sq. ft. used in the assessment. The Respondent argued that they have found no differentiation in lease rates for large and small areas.

The CARB concluded that there is insufficient lease data to conclude that smaller space will achieve higher rates. The data also shows conflicting information with respect to the Respondent's argument that the rates are trending upwards to \$25.00 per sq. ft. in that while there are post valuation date leases signed at \$25.95, there is also one signed in November 2009 at \$23.95. Further the CARB takes the position that the Lincoln Park comparables are sufficiently similar to the subject property and should be considered in the analysis of lease rates. Lincoln Park is a relatively new suburban office area and appears to command rates in the range of Quarry Park. The CARB decided that the greatest weight should be placed on the pre-valuation date lease data. This data included three leases in Quarry Park and three in Lincoln Park. The three in Quarry Park provide an average rate of

\$23.91 per sq. ft. all six leases provide an average of \$23.62 per sq. ft. If all nine leases are considered from a trending perspective the median is \$24.35 and the average becomes \$24.18. Based on our review of this analysis the CARB decided to set the typical lease rate for the subject property at \$24.00 for the 2009 assessment year.

Vacancy Allowance

The Complainant argued that the 6% vacancy allowance used by the Respondent is not reflective of the level of vacancy being experienced by properties similar to the subject in south Calgary as of the valuation date July 1, 2009. The Complainant proposed that this allowance should be 10% and introduced a number of third party reports in support of this recommendation. These reports were published by Avison Young, CB Richard Ellis and Colliers International and showed vacancy rates for suburban office space in the S.W and the S.E range from a low of 7.9% in Q2 to a high of 20.3% in Q3 of 2009. The majority of data reported showed vacancy rates in excess of 10% for mid year 2009. The Complainant's also provided 2008 third party reported vacancy rates to show that in 2008 the Respondent's assessed 3% closely matched these reports that year wherein the current year there is a significant spread. The Complainants had also completed their own study of suburban office vacancy in south Calgary which included 27 comparables showing a median vacancy rate of 9.66% as of July 1, 2009. The Respondent had pointed out that the Complainant's data included a building showing vacancy at 100%, however this building was still under construction as of July 1, 2009. In rebuttal to the Respondent's information the Complainant has prepared a further vacancy review document wherein the building under construction had been removed and ten other comparables had been added. This information captured approximately 54% of the total suburban office space in the southeast as reported by the Respondent and produced a vacancy rate of 9.68%. This value was determined by totalling the available space in all of the comparable properties listed (2,142,574 sq. ft.) and dividing that number into the total vacant space in those buildings (207,395 sq. ft.) at July 1, 2009.

The Respondents argued that the method and calculations applied by the Complainant to determine typical vacancy is not appropriate and that the correct method is to determine the vacancy level expressed as a percentage for each comparable building and then determine the median vacancy value for the array of comparables. In so doing the method reduces the impact of highs and lows thereby giving a truer picture of the typical vacancy experienced within the sample. The Respondent submitted a vacancy study prepared by the City of Calgary which included 92 suburban office buildings in south Calgary. The available rentable space in these buildings totalled to 3,953,735 sq. ft. and the vacant space in these buildings was reported to be 243,359 sq. ft.. The median vacancy rate for the buildings in this study was 0% and the mean value was reported as 5.98%. The Respondents indicated that the median of 0% is the best indicator of value; however other information led them to apply a 6% vacancy rate for south Calgary suburban offices this year. The Complainant introduced several examples of buildings included in the Respondent's study that appeared not to be suburban office but perhaps retail or industrial in nature. The Complaint also argued that the Respondent did not provide the actual vacancy data for any of their comparables and therefore there was no way for the Complainant or the CARB to test this information. The Respondent indicated that this information is treated as confidential, however the Complainant argued that vacancy information should not be viewed as confidential as all owners advertise their vacant space and share this information openly. The Respondent argued that the market reports are not reliable and that the Respondent's review of the Complainant's initial study, along with the

addition of eight other buildings in the southeast, provides a median value of 6.26% supporting the assessed value of 6%.

The CARB reviewed the methodology applied by the parties in their respective vacancy studies and favours the Complainant's approach. The Respondent's method in this case produced a median of 0% and yet the Respondent did not rely on that value but rather adopted a vacancy allowance of 6%. The Respondent's methodology may have produced a meaningful value if the data in the array represented annualized vacancy for each property rather than a snapshot value at a particular point in time. The approach applied by the Complainants is a similar approach to that used by the third party reporting agencies and provides a good picture of overall vacancy levels for the group of properties in the sample at a particular point in time, in this case July 1, 2009. The CARB finds that the Complainant's more inclusive rebuttal document which included the Respondent's additional 8 buildings and two other buildings, to be persuasive. The Respondent's information also was found not to be sufficiently transparent to determine why there is such a wide variance between the results of their study and that of the third party reports and that of the Complainant. The CARB placed greatest weight on the Complainant's rebuttal document representing 54% of the suburban office buildings reported by the Respondent. This information produced an average vacancy level for the total rentable area of the buildings in the study of 9.68%. This vacancy value is solidly supported by the third party reports provided by the Complainant. The CARB therefore decides to apply a 9.5% vacancy allowance for this property and others in this set of Complainants where the parties have relied on the same evidence.

Typical Monthly Parking Rate

In this case the Respondent had applied a typical parking rate of \$100 per month for the 32 stalls on the subject site. The Complainant submitted that the typical charge for suburban parking would be more in the area of \$75 per month. In support of this the Complainant brought forward lease information and other documentation to show that for the five buildings reviewed the actual parking charges range from no charge at all to a high of \$78.75. Two of the five charged \$75 per month and the Complainant proposed that the CARB adopt that value for purposes of the assessment for the subject and other similar properties under complaint in these hearings.

The Respondent provided the CARB with their parking rate study of 48 suburban office buildings. This information showed a median rate of \$109 per month and an average rate of \$114 per month. Based on this study the Respondent had adopted a value of \$100 per month as the typical parking rate for the year under complaint.

The CARB reviewed both party's parking evidence and found that the Respondent's evidence provided the most reliable basis from which to derive a typical rental rate for parking in the suburban office market. The CARB makes the observation that while Respondent's data represents rates from all quadrants of the City, it appears that there may not be significant variance based on quadrant. The Respondent has chosen a slightly conservative value of \$100 based on this study and the CARB accepts this value as the correct rate for the 2009 assessment year.

Decision

Based on a careful review of all the evidence and argument advanced in this case and in light of the findings and reasons above the CARB reduces the assessment of the subject property to \$16,750,000.

DATED AT THE CITY OF CALGARY THIS 22 DAY OF June 2010.



Paul G. Petry
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.*