

**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:

J. Noonan, PRESIDING OFFICER

J. O'Hearn, MEMBER

B. Jerchel, 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:	123107807
LOCATION ADDRESS:	8819 Bonaventure Dr SE
HEARING NUMBER:	58972
ASSESSMENT:	\$33,050,000

This complaint was heard on the 8th day of June, 2010 at the office of the Assessment Review Board located at the 4th Floor, 1212 – 31 Avenue NE, Calgary, Alberta, Boardroom 3.

Appeared on behalf of the Complainant:

- K. Fong - *Agent, Altus Group*

Appeared on behalf of the Respondent:

- E. Lee, D. Joehnck, D. Zhao, *Assessors, The City of Calgary - Respondent*

Property Description:

The subject is located at 8819 Bonaventure Drive SE, Calgary. It is known as the Co-op Macleod Trail Shopping Centre and comprises a rentable area of 145,545 sq. ft. on a parcel of 358,042 sq. ft. or 8.22 acres. Improvements include 52,651 sq. ft. grocery store and 58,732 sq. ft. of office space. The office space is of recent construction above the CRU space and is predominantly occupied by the owner as head office. The other improvements date to 2001. The assessed value is \$33,050,000 net of exempt portion assessed on a separate roll number.

Overview:

The property was assessed as a neighbourhood shopping centre using the income approach to value. The CARB was asked to decide if the Complainant's parameters better represented market value of the subject and the requested reduction to a value of \$25,950,000. The Complainant filed with the Complaint Form a lengthy list of grounds for complaint, but at the hearing refined these grounds to three particular issues relating to rent rates, vacancy allowance and whether the gas bar deserved a lower attributed PGI.

Issues:

1. Do the typical rent rates used by the Respondent for the various components of the shopping centre produce a fair and equitable assessment in light of the actual rents achieved?
2. Should the vacancy allowances of 1% for anchor space and 2% for CRU space be increased to 4% and 11%?
3. Should the gas bar have an attributed PGI of \$45,000 kiosk rate instead of the \$70,000 convenience store rate?

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

Issue 1: Rent Rates

The Complainant submitted that this owner-occupied grocery anchor space deserved a \$14 rent rate, and cited MGB Board Orders that had placed this store and many others in that category in the previous three years. An Altus report on stratification of grocery stores was introduced, reflecting those previous decisions, and updated where new leasing information was available.

The report placed primary consideration on age and then location, assigning most newer "leading edge" shopping centre grocery anchors to a \$15 category, power centre and other locations with very good or "too good" traffic were in a \$14 category, then lower categories of \$13, \$9 and \$8 rent rates. As the City considers this section of Macleod Trail a power centre, it should properly be in the \$14 universe as was decided last year, market conditions having changed little.

The Respondent candidly admitted that in previous years the assessment department had difficulty in defending its grocery anchor hierarchy, had taken heed of decisions and learned lessons, and had introduced a streamlined hierarchy for the 2010 assessments focused on location, age, renovations and lease rates where available. The highest category was the \$15 rate for newer or renovated stores that were better located along major thoroughfares or in power centres. Typical grocery stores were in a \$13 category, and a \$9 rate was reserved for less desirable stores. The subject is in a prime location on Macleod Trail despite its address and thus in the \$15 population.

The Complainant requested the CRU space <1000 sq.ft. be reduced from a \$27 rent rate to \$22; that CRU space in the 2501-6000 sq.ft. range be \$19 vs \$27; that the 6076 sq.ft. liquor store rate change to \$19 from \$22; that the office space rate drop to \$18 vs \$20 and a suburban office vacancy of 6% applied. The subject ARFI was supplied, showing CRU leases ranging from \$18-\$26 with the majority between \$22-\$24, versus the City's applied rates of \$22-\$28 (including the 1000-2500 sq.ft. CRUs). Inadvertently, the evidence regarding the office space was missing from the submission.

The Respondent presented comparable lease rates for CRU space in similar centres as well as office lease comparables, noting that the assessed rates were well supported, while the Complainant's presentation was site-specific.

The CARB found the Respondent's evidence on CRU and office space supported by market comparables, superior to that of the Complainant whose lease evidence was site specific. The City's new grocery store hierarchy is comprehensible. The Board was satisfied that the subject's location should properly place it in a category with other well situated shopping centres. In a market with limited sales and slightly less limited lease information, it becomes difficult to address variations in age, level of renovations and other factors which are frequently raised in argument over assessment equity. Here, the Board is satisfied that there is no compelling reason to place the subject property in its own separate \$14 category.

Issue 2: Vacancy Allowance

The Complainant urged the CARB to view the vacancy allowance not in the isolation of a single year, but rather from the perspective of a long term investor who would anticipate vacancy over a much longer time frame. Over 10 years, the City's 1% anchor space allowance would anticipate vacancy of only 5 or 6 weeks, an unrealistically low number. Rather, a 4% allowance ought to be applied, in line with the allowance granted to numerous examples of big box free-standing stores, many of which functioned in concert with other developments in a manner similar to a neighbourhood shopping centre. For CRU space an allowance of 11% was advanced, supported by a full page vacancy study of similar developments but excluding anchor spaces. This study had been compiled by Altus over the previous year from rent roll information supplied by their clients, and produced a weighted average of 10.5% vacancy for CRU space.

While a 5-6% vacancy might be expected over the longer term, if one averaged this 11% requested allowance with the previous 2 years allowances, a conservative number was still achieved.

The Respondent noted that in the Calgary market, shopping centre anchor grocery space was frequently owner-occupied, but where leases were in place their terms were for 20 years or more, and thus a 1% vacancy allowance for this type of space was justified. Big box stores are a different class of property. With regard to CRU vacancy, the City annually collects ARFIs which are returned from property owners over a short time period, and thus give a true snapshot of vacancy as opposed to all the vacancies that occurred over the year, no matter their duration. As well, the City found errors in the Complainant's study, such as vacancy that only occurred in 2010 – thus having no bearing on July 1, 2009 typicals – or instances where vacancy was owner-initiated to accommodate construction/renovation.

The Respondent presented a cap rate study of four neighbourhood/community shopping centres, three sales in 2009 and one in 2008. Using City typicals for rent rates, vacancy, operating shortfalls, etc. from those respective years, a median cap rate of 7¼% was calculated, as compared to an 8% cap rate used for July 1, 2009 assessed value. If one were to substitute the Complainant's vacancy allowances of 4% and 11% in this study, the median cap rate would drop to 6.39% or an implied 7% for assessment purposes. For the subject property those higher allowances and lower cap rate would yield an increased value of \$33,820,000 compared to the current \$33,050,000.

The CARB found insufficient evidence from either party to justify a change to the 1% grocery anchor vacancy allowance. The Board also found the City's method of data collection superior to that advanced by the Complainant, giving a more reliable estimate of vacancy for CRU space, and so found insufficient reason to accept the requested 11% vacancy for this space type.

Issue 3: Gas Bar, Size Matters

The Respondent assesses shopping centre gas bars in a consistent fashion: if the cashier is located in a kiosk structure less than 1000 sq. ft. an attributed PGI of \$45,000 is capitalized; if the cashier is situated in a structure greater than 1000 sq.ft., much like a convenience store, the PGI attributed is \$75,000.

The Complainant did not have available an area measurement, but ventured the improvement looked to be close to 1000 sq. ft. or at least significantly smaller than a typical convenience store.

In the absence of hard evidence to the contrary, the CARB accepts the Respondent's assertion that the improvement is greater than 1000 sq. ft. and the correct PGI is \$70,000. The Board notes that the assessor would have access to the development permit blueprints, and further notes that disputes over measurement are best rectified by the parties rather than ARB decision.

Board Decisions on the Issues:

The Board confirms the assessment of \$33,050,000 having considered the issues raised by the

Complainant and deciding these in the Respondent's favour on the basis of evidence presented.

DATED AT THE CITY OF CALGARY THIS 24th DAY OF June, 2010.



for. J. Noonan
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.*