

**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:

Linnell Taylor Assessment Strategies, COMPLAINANT

and

The City of Calgary, RESPONDENT

before:

W. Kipp, PRESIDING OFFICER

C. McEwen, MEMBER

J. O'Hearn, 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:	101006906
LOCATION ADDRESS:	358 – 58 Avenue SW, Calgary AB
HEARING NUMBER:	56212
ASSESSMENT:	\$3,560,000

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

Appeared on behalf of the Complainant:

- J. David Sheridan

Appeared on behalf of the Respondent:

- Jarrett Young / Daniel Lidgren

Property Description:

Two storey, 17,110.5 square foot suburban office building, constructed in 1979 on a 19,123 square foot site. The building, known as Chinook Place is located in the Manchester district of south Calgary.

Issues:

The Complainant raised the following matters in section 4 of the complaint form:
Assessment amount (No. 3 on form)

The Complainant also raised the following specific issues in section 5 of the Complaint form after general reasons stating the assessed value is incorrect and the assessed value is too high:

1. Assessed vacancy allowance is insufficient and assessments rates and ratios are incorrect
2. Assessment is excessive

Complainant's Requested Value:

\$2,600,000

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

Issues:

All of the issues relate to the input factors into an income approach valuation which lead to the final assessment which is alleged to be excessive.

This decision will address the valuation and come to a single decision rather than attempt to isolate components for separate decisions.

The subject property has been assessed using the income approach. The following input factors went into the formula:

Market Net Rental Rate:	\$18.50 per square foot (office and retail)
Vacancy Rate:	10.0%
Operating Costs:	\$12.50 per square foot
Non-recoverable Expense ratio:	2.00%
Capitalization Rate:	7.50%

Firstly, the Complainant considered rent rates. A summary of the Assessment Request For Information (ARFI) information was provided showing leasing in the subject property. The three most recent leases (all early 2008) showed rent rates of \$11.00, \$24.00 and \$18.00 per square foot. The \$11.00 and \$24.00 rates were for space on the ground (retail) floor. It was stated that no new tenants had been attracted to the property and those recent leases were a result of existing tenants relocating.

A table summarizing Manchester suburban office leasing provided a range of rates from \$10.00 to \$16.00 per square foot, with commentary that some of the rates were "asking" rents that would probably be reduced by 10% or so if a lease was to be negotiated. The median rate from the lease data was \$14.57 and the Complainant rounded that to \$15.00 per square foot but following commentary about the building next to the subject, chose a rate of \$16.00 per square foot for both the retail and office space.

Excerpts from published industry survey reports from national real estate agencies showed that the typical vacancy rate for south-central Calgary Class B buildings would have been 15% at or around July 1, 2009. For suburban offices of all classes in south, south central and southwest districts, the surveys showed vacancy rates from 8.17% to 14.8%. The subject property should be in the B Class so a rate of 15% would best reflect its vacancy situation. This was confirmed by an actual vacancy of 15.9% according to the ARFI.

There was discussion about capitalization rates of 8.5% to 8.75% but after analyzing office building sales, the Complainant adopted an 8.00% rate.

The Complainant maintained that the subject is a Class B suburban office based on its age and condition. The assessment reflects its designation as a Class A- property.

Based on a \$16.00 per square foot rental rate, 15% vacancy allowance, 1.0% non-recoverable expense rate, \$12.00 per square foot vacancy shortfall rate and 8.0% capitalization rate, the Complainant arrived at the requested assessment amount of \$2,600,000.

The Respondent provided a chart showing some lease details for space in several southeast Calgary suburban office buildings. From the sampling of 13 leases, the median rent rate was \$19.00 per square foot and the mean was \$18.10 per square foot.

The Respondent's support for the 7.5% capitalization rate was in the form of a study based on six office building sales, including one marked as "post-facto" because it did not close until July 29, 2009. All of the other sales occurred in 2008. From an overall analysis with emphasis on the three most recent sales, the assessor chose a capitalization rate of 7.5% even though the median rates were indicated at 6.64%, 6.86% and 7.32%. Additional support was in the form of summary tables from Realnet, a commercial sales reporting company and from published survey reports from commercial real estate agencies.

The Respondent did not support the vacancy rate in evidence before the Board other than to point out that 10% is the typical vacancy rate for Class A- buildings in this market area.

Information was provided to show that the \$11.00 lease rate for space in the subject building, used by the Complainant, was a non-arm's-length lease where the landlord and tenant were related companies. With that lease removed from the analysis, the remaining two leases at \$18.00 and \$24.00 per square foot clearly support the \$18.50 rate used in the assessment. The Respondent also questioned the Complainant's capitalization rate because it came primarily from sales of Beltline office buildings which were clearly not comparable to the subject.

By way of rebuttal, the Complainant provided commentary and photographs to show that the subject is not a Class A property.

Findings

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

Firstly, the Board notes that the Complainant has valued the subject to arrive at the requested assessment using a 1.0% non-recoverable expense allowance and a \$12.00 per square foot vacancy shortfall allowance. These are slightly different than the rates used by the assessor but there was no detail provided for the reasons for the slight variances.

Much of the argument focused on the building class for the subject: "Class B" or "Class A-". The CARB did not find sufficient evidence to determine that the Class should be reduced to "B" so it turned to rent rates. The two 2008 leases in the subject building tended to support the \$18.50 rate used by the assessor. Both parties used data from Sloane Square, an A- building at 5920 – 1A Street SW. The Complainant listed asking rates of \$15-\$16 per square foot for two spaces in that building. The Respondent provided five lease transactions that took place in the building in 2008 and 2009 where the rents were from \$18.00 to \$20.00 per square foot. The CARB was not convinced that the Complainant's reported asking rates were around the effective date of July 2009 or whether they were for later in that year or even into 2010.

The CARB finds that there is insufficient evidence pertaining to suburban office building classifications to warrant any class change for the subject. The Complainant's rent and vacancy rate analyses focused on Class B buildings.

Board's Decision:

The CARB finds that there is no support for a change to Class B for the subject. As a Class A- building, the Respondent's coefficients are the only ones in evidence for that class.

The 2010 assessment is therefore confirmed at \$3,560,000.

DATED AT THE CITY OF CALGARY THIS 22 DAY OF July 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.*