

**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 Limited, COMPLAINANT

and

The City Of Calgary, RESPONDENT

before:

H. Kim, PRESIDING OFFICER

K. Coolidge, MEMBER

J. Mathias, MEMBER

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

ROLL NUMBER:	067055202
LOCATION ADDRESS:	706 7 Ave SW
HEARING NUMBER:	60006
ASSESSMENT:	18,840,000

ROLL NUMBER:	067057513
LOCATION ADDRESS:	840 7 Ave SW
HEARING NUMBER:	60228
ASSESSMENT:	63,150,000

This complaint was heard on the 13th day of September, 2010 at the office of the Assessment Review Board located on the 4th Floor, 1212 – 31 Avenue NE, Calgary, Alberta, Boardroom 1.

Property Description:

The subject complaints are of two office buildings constructed in 1979. They are located in close proximity to each other in the DT2 district of downtown Calgary and are classified as C buildings. They are assessed on the income approach based on \$22/SF for the office area, along with rates for retail, recreation and parking that are not under dispute. Vacancy, operating costs and vacancy shortfall also not under dispute are applied. The resulting net operating income is capitalized at 8.5% to arrive at the full assessment values.

- Building 1 is Sierra Place, a ten storey building with 83,206 SF of office space, 6,129 SF of main floor retail and 6 parking stalls on a 8,985 SF parcel of land.
- Building 2 is Phoenix Place (previously named Sandman) a 21 storey building with 256,481 SF of office space, 2,642 SF recreational space, 5,210 SF retail and 225 parking stalls on a 18,349 SF parcel. A portion of the building is leased to an exempt tenant. The value attributable to the exempt tenant is \$1,000,000 and deducted from the full assessment value to arrive at the assessment under complaint.

Issues:

The Complainant identified a number of issues on the Complaint form; however at the hearing the issues argued and considered by the Board were:

1. The capitalization rate should be increased to 9%
2. The rental rate for the offices should be decreased to \$14 from \$22
3. Building 1 (Sierra Place) requires roof replacement of approximately \$1,000,000 cost.

Complainant's Requested Value:

Roll Number 067055202: \$11,490,000 revised to \$11,270,000 at the hearing.
Roll Number 067057513: \$23,670,000 revised to \$35,750,000 at the hearing.

Board's Decision in Respect of Each Matter or Issue:**Issue 1: Capitalization rate**

Both parties relied on the same capitalization rate presentation used in hearings earlier in the day. The presentation and reasons for decision were detailed in CARB 1576/2010-P.

That decision determined the cap rate for a typical B class building should be 8.5%. There was no dispute that the cap rate for a class C building should be ½% more than B; therefore a 9.0% cap rate is appropriate for the subject properties.

Issue 2: Office rental rate**Complainant's position:**

The Complainant presented 42 lease rates of Class C class buildings, with start dates between January 2009 and April 2010. The rates were between \$10.75 and \$26/SF with an average of

\$15.69, a median of \$15.00 and a weighted average of \$16.08/SF. The Complainant also presented graphs on which lease rates for C class buildings were plotted over time with a best fit curve to show the trend in lease rates. A straight line from \$17.50/SF at December 2008 to \$14/SF at January 2010 was plotted to support a 2% per month time adjustment for lease rates.

Respondent's position:

The valuation date for the 2010 assessment year is July 1, 2009. Leases starting after that date should not be considered since the market value at July 2009 would be based on activity prior to that date. The leases considered were those starting in the year prior to the valuation date. Respondent presented 32 leases of C class buildings in DT2 and DT9 with start dates between July 1 2008 and June 1 2009 for \$11.50 to \$34/SF with a mean of \$23.32, a median of \$24.50 and a weighted average of \$23.21/SF. The \$22/SF rental rate applied to Class C buildings in DT2 is supported by typical leases.

The Respondent disputed the majority of the leases submitted by the Complainant as post facto, step-ups of old leases or having different start dates from those listed. The Assessment Request for Information (ARFI) returns for the subject properties show most of the leases are dated and not reflective of typical market value in the valuation period. The recent leasing activity in Sierra Place was August 2008 at \$34/SF and in Phoenix Place were January and April 2009 at \$13.79 to \$26.93/SF.

The Respondent pointed out that in ARB 0980/2010-P the decision to reduce the rental rate to \$18 was based on the Complainant's argument that the building was in an inferior location to the Respondent's comparables in DT2. The rental rate applied to the subject buildings is reasonable, reflects typical market value for the period leading up to the valuation date, and should be confirmed.

Decision and Reasons:

The Board agrees that *post facto* lease rates should not be considered, as the market value at the valuation date would be based on leasing activity up to that date. However, in a declining market, leases signed substantially before the valuation date would likewise not be an accurate reflection of market value at July 1, 2009.

The Board considered leases signed in the second quarter (Q2) of 2009 most likely reflected market rates at July 2009. The Board was not convinced that DT9 was comparable and looked only at leases in DT2. The second quarter leasing activity in Phoenix Place and Q2 leases presented by the Respondent (R2, p23 and 25) appeared to best reflect market conditions:

Address	Leased area	Lease start	Rental rate
840 7 Ave SW	8799	04/01/2009	13.79
1000 8 Ave SW	18642	04/01/2009	22.00
1000 8 Ave SW	1247	04/01/2009	11.50
630 6 Ave SW	1104	05/01/2009	18.00
910 7 Ave SW	5653	05/01/2009	29.00
910 7 Ave SW	3681	06/01/2009	26.00
	Mean		20.05
	Median		20.00
	Weighted Mean		21.09

The sample size was relatively small and the values covered a large range. On balance, the Board found the weighted mean of \$21/SF best reflects an appropriate market rental rate for the subject properties at July 1, 2009.

Issue 3: Cost of roof replacement

The Complainant stated that he had been advised by the owner that Building 1 required roof replacement at a cost of \$1,000,000 but did not submit further evidence.

Decision and Reasons:

Roof replacement is a major capital expenditure that likely would affect the market value of a property, but the cost would have to be supported by documentary evidence such as a report, quote or contract. In the absence of such information the Board is unable to determine whether the stated cost is accurate or reasonable and therefore finds that there is insufficient evidence to reduce the assessment for that reason.

Board's Decision:

The complaint is allowed, in part, and the assessments are reduced to

Roll Number 067055202: \$16,980,000

Roll Number 067057513: \$57,170,000 (\$58,070,000 less \$900,000 exempt portion)

based on \$21/sq. ft. office rental rate and 9% capitalization rate and no changes to any other parameters.

DATED AT THE CITY OF CALGARY THIS 30 DAY OF SEPTEMBER 2010.



H. Kim
Presiding Officer

APPENDIX "A"**DOCUMENTS RECEIVED AND CONSIDERED BY THE BOARD:**

NO.	ITEM
C1	Complainant Forms
C2	Complainant's general argument for Class B and Class C
C3	Complainant's vacancy rate, rental rate and capitalization rate analysis and classification of buildings
C4	Appraisal texts, previous board orders, third party reports
C5	Complainant's Site Specific submissions
R1	Respondent's general office building submission
R2	Respondent's Site Specific submission for each roll number
R3 to R11	Precedent CARB orders for office buildings
R12	2005 and 2006 rental rates for office buildings vs assessed rate

APPENDIX 'B'**ORAL REPRESENTATIONS****PERSON APPEARING CAPACITY**

Giovanni Worsley	Altus Group Limited, Complainant
Dan Lidgren	Assessor, City of Calgary, Respondent
Andy Czechowskyj	Assessor, City of Calgary, Respondent

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.*