

**CALGARY
COMPOSITE 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, Section 460(4).

between:

Altus Group Limited, COMPLAINANT

and

The City Of Calgary, RESPONDENT

before:

L.R. Loven, PRESIDING OFFICER

D. Cochrane, MEMBER

E. Reuther, MEMBER

This is a complaint to the Calgary Combined 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: 201212289

LOCATION ADDRESS: 540 12 Avenue S.W.

HEARING NUMBER: 59112

ASSESSMENT: \$29,160,000

This complaint was heard on the 29th day of September, 2010 at the office of the Assessment Review Board located at Floor Number 4, 1212 – 31 Avenue NE, Calgary, Alberta, Boardroom 10.

Appeared on behalf of the Complainant: B. Ryan

- Altus Group Limited – *Complainant*

Appeared on behalf of the Respondent: D. McCord

- The City of Calgary - *Respondent*

Board's Decision in Respect of Procedural or Jurisdictional Matters:

Note: This matter was originally scheduled to heard on October 4th, 2010, and was brought forward at the request of the parties.

Property Description:

The subject property consists of a 78,315 square foot seven-storey commercial office building originally constructed in 1967 (then known as the Confederation Building), and re-constructed in 2006, now known as the Worley Parsons Building (also formerly known as Citadel West). It is located in the Beltline and has 76 parking stalls. The 2010 assessment is \$29,160,000.

Issue: Classification should be changed to "A"

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

[1] The Complainant, Mr. Ryan, submitted an Income Approach Valuation for the subject property as assessed, and noted the office rental rate of \$28.00 per square foot, and capitalization rate of 7.25% apply to a Class "AA" building.

[2] Mr. Ryan submitted an Assessment Request for Information (ARFI) for the subject property showing that Worley Parsons leases all 78,315 square feet of the subject property for a 10 year term commencing February 1, 2007 at \$18.44 /SF (square foot).

[3] He then provided an Altus InSite market data sheet for the subject property, noting the office class as "A". As well, he provided photos of the subject property and surrounding developments, noting the subject property has no atrium, and was thus inferior.

[4] Mr. Ryan submitted a printout from the City of Calgary web site regarding quality classifications of office properties, highlighting the following sections: Three major classes, noting that sub-classes are contained within these major classes; location within three major zones (each sub-divided into several economic zones); and, age of an office building correlating to quality and condition as reflected in the rent achievable.

[5] Mr. Ryan provided an excerpt from the Alberta Assessors' Association *Valuation Guide for Office Buildings*, regarding the classification of office Buildings, noting Class "A" or "AA" are newer, larger,

have access to transit and have atriums and retail areas.

[6] He then submitted an Avison Young "City of Calgary Notable Office Development – Beltline District" sheet, highlighting four projects, plus the IBM Building C. This noted all Class "AA" buildings, and noting that the newer "AA" buildings are considerably larger than the subject property.

PROJECT NAME	LOCATION	AREA (SF)	COMPLETION DATE
IBM Building C	227 11 Avenue SW	108,000	2008
Palliser South	10 Avenue & 1 st Street SE	290,000	2009
Keynote	1100 – 1 st Street SE	224,000	2009
Stampede Station I	1331 MacLeod Trail SE	153,300	2009
CBE Education Centre		309,000	2011

[7] Mr. Ryan submitted an Aspen Properties brochure for Palliser South noting the building amenities, building materials features, and future development plans. Also, a brochure and Income Approach Valuation for Stampede station noting retail space at \$32.00 /SF and office at \$28.00 /SF, and a capitalization rate of 7.25%; a CB Richard Ellis brochure for the Keynote noting the amenities, plus an Income Approach Valuation noting parking at \$3,000 per stall, office space at \$28 /SF, and a capitalization rate of 7.25%. Based on the evidence, he argued that the subject property is not similar to the most prestigious building in the Beltline in size, amenities or prominence, and should be assessed at most as a class "A-".

[8] Mr. Ryan submitted a City of Calgary Addendum listing Beltline accounts for respective properties that required either a correction to the Valuation Approach or, supplementary information on the office quality classification and noted there are no Class "A" properties listed, only "A-", "A2", "A+" and "AA", and the subject property listed as "AA".

He submitted the subject property was more comparable to the following properties.

NAME	ADDRESS	AREA	OFFICE RENTAL RATE(SF)	CAPITALIZATION RATE (%)
Mount Royal Village	880 16 Avenue SW	97,963	23.00	7.5
Critical Mass	402 11 Avenue SE	51,598	26.00	7.5
Central Park Plaza	340 12 Avenue SW	120,489	23.00	7.5
Demcor Building	239 10 Avenue SE	25,375	23.00	

[9] Mr. Ryan provided an Equity Analysis showing six "A+" and "A-" Beltline properties assessed at \$26.00 /SF and \$23.00 /SF respectively, each with parking at \$2,100 per stall and a capitalization rate of 7.5%, versus the subject property at "A" and \$28.00 /SF, \$3,000 per stall, and a 7.25% capitalization rate.

[10] He then provided an Equity Analysis of three neighbouring Beltline offices ranging in age from 1982 to 2004, with assessed rent from \$17.00 /SF to \$23.00 /SF.

[11] Mr. Ryan submitted an Avison Young Market Report for Fall 2008, noting a Q3 asking rate of \$30.00 /SF for Beltline "A", and First Quarter 2009, noting March asking rate of \$26.00 /SF, and argued that this supported a decline in the Beltline office market for that building class.

[12] Based on all of the above evidence and argument, he submitted a suggestion of value using the Income Approach as summarized below:

Component	Area (sf)	Rent/Rate	Income	Value
Office	78,315	\$ 23.00	\$ 1,801,245	
Subtotal	78,315		\$ 1,801,245	
Parking	76	\$ 2,100.00	\$ 159,600	
TOTAL			\$ 1,960,845	
Vacancy (-)	0	8.5%	\$ 153,106	
OC (VS Short Fall)(-)		\$ 12.00	\$ 79,881	
Non Recoverable (-)		2%	\$ 32,963	
NOI			\$ 1,694,895	
Cap Rate		7.50%		\$22,598,601
Assessment				\$22,600,000

[13] The Respondent, Mr. McCord, submitted a copy of the lease for the subject property and Altus InSite Building Detail for the subject property as a Class "A", built in 1976, with no available space and a direct asking rate of \$28.00 /SF.

[14] He then provided four equity comparables (summarized below), and confirmed that they were larger, and had more amenities.

NAME	ADDRESS	CLASS	AGE	AREA	RENTAL RATE(\$/SF)	CAP RATE (%)
IBM Corporate Park	227 11 Avenue SW	AA	2002/2008	356,448 3,790	26.00 (office) 32.00 (retail)	7.25
Citadel West	540 12 Avenue SW	AA	2006	241,939 36,871	26.00 (office) 32.00 (retail)	7.25
Keynote	1100 1 Street SE	AA	2009	241,939 36,871	26.00 (office) 32.00 (retail)	7.25
Stampede Station	1331 MacLeod Trail SE	AA	2009	150,827 10,827	26.00 (office) 32.00 (retail)	7.25

[15] Mr. McCord submitted the same Equity Analysis for three neighbouring properties as Mr. Ryan, and noted that the newer "AA" developments in the Beltline may have pushed down the class of the subject property to "A" Class or "A-". Based on consideration of the evidence that newer and larger Class "AA" developments in the Beltline (with more amenities), such as IBM Corporate Centre, Stampede Station and Palliser West, are superior to the subject property in quality and features, the appropriate class should be downgraded to that of "A".

[16] The Board finds that the only issue argued by Mr. Ryan was the class of the subject building.

[17] The valuation method applied in this instance was the Income Approach. The use of this approach to value is contextually allowed in the legislation. Mr. Ryan did not argue that this approach was inappropriate; however, there are a number of factors that are associated with reducing the class of the subject property. By lowering the class of the subject building, the rental rate, parking rate and capitalization rate are all affected.

[18] The Board noted that the sale of subject property in Q1 2008, provided by Mr. McCord, for \$34,663,576, occurred after the Worley Parsons ten-year, single tenant lease was in place. The Board notes that there is no mention of leasehold or tenant improvements or rent free periods in the lease.

[19] The Board further finds that the class of the subject building to be less than that of a Class "AA", building but greater than that of a Class "A-" building, thereby leaving Class "A+" as the most appropriate class. Valuation parameters for this type of building in the Beltline are \$26.00 per SF of assessed rent, \$2,100 / parking stall, and capitalization rate of 7.50%; the other parameters remain unchanged regardless of Class "A+" of "A-". With the changes as noted, the assessment is \$25,400,000.

Component	Area (sf)	Rent/Rate	Income	Value
Office	78,315	\$ 26.00	\$ 2,036,190	
Subtotal	78,315		\$ 2,036,190	
Parking	76	\$ 2,100.00	\$ 159,600	
TOTAL			\$ 2,195,790	
Vacancy (-)	0	8.5%	\$ 173,076	
OC (VS Short Fall)(-)		\$ 12.00	\$ 79,881	
Non Recoverable (-)		2%	\$ 37,262	
NOI			\$ 1,905,570	
Cap Rate		7.50%		\$25,407,604
Assessment				\$25,400,000

Board's Decision:

The Board reduces the assessment to \$25,400,000

DATED AT THE CITY OF CALGARY THIS 17 DAY OF NOVEMBER 2010.


L.R. LOVEN

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.*