

**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:**

**Concert Real Estate Corporation, *COMPLAINANT***

**and**

***The City Of Calgary, RESPONDENT***

**before:**

**J. Noonan, *PRESIDING OFFICER***

**R. Roy, *MEMBER***

**D. Julien, *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 2011 Assessment Roll as follows:

<b>ROLL NUMBER:</b>	056012693
<b>LOCATION ADDRESS:</b>	1010 1 Av NE
<b>HEARING NUMBER:</b>	61166
<b>ASSESSMENT:</b>	\$5,490,000

This complaint was heard on the 13<sup>th</sup> day of June, 2011 at the office of the Assessment Review Board located at the 4th Floor, 1212 – 31 Avenue NE, Calgary, Alberta, Boardroom 10.

Appeared on behalf of the Complainant:

- G. Worsley, Sr. Tax Consultant, Altus Group - *Complainant*

Appeared on behalf of the Respondent:

- R. Fegan, M. Lau, T. Neal, Assessors, *The City of Calgary - Respondent*

**Property Description:**

The subject is located at 1010 1 Av NE, Calgary. It is a three-story B class office building of 29,006 sq.ft. built in 1981 in the Bridgeland neighbourhood. It is further stratified as being a medical-dental property, and has 37 underground parking stalls. The assessed value is \$5,490,000.

**Issues:**

The complaint form listed a number of issues or grounds for appeal, including that the assessment was in excess of market value, unfair and inequitable in comparison to similar properties, that property details are incorrect, that information requested under ss 299 and 300 of the *MGA* was not provided, the office classification is unfair, inequitable and incorrect, the rental rate should be no more than \$13, the vacancy and credit allowances should be no less than 15%, and the value attributed to parking is unfair, inequitable and incorrect. At the hearing, the Composite Assessment Review Board (CARB) heard evidence and argument on the following issues:

1. Should the medical/dental classification be removed and the property assessed as a B class suburban office at a typical lease rate of \$14?
2. Should the vacancy allowance be increased from 5.5% to 9.5%?
3. Should the annual per stall parking revenue be reduced from \$2160 to \$1080?

The Complainant urged a reduced assessment in the amount of \$3,909,000 after giving effect to the changes requested in the issues, and after the deduction of tax exempt space, not at issue. The Respondent explained that though the subject carried a NE address, being close to downtown and west of the Deerfoot, the subject had been grouped with similar properties in the NW.

Issue 1: Medical/dental classification.

The Complainant provided 15 NW equity comparables, all but three under 50,000 sf in size and similar in age to the subject, all "B" class suburban offices and some containing medical space. All these comparables were assessed at a \$14 typical lease rate, and showed average and median assessments per sf of \$170 and \$177, compared to the subject carrying a value of \$202

per sf. Applying a rate of \$175 to the subject would reduce the assessment to \$5,070,000 prior to deduction of the exempt portion of 1958 sf. As about half the subject's area was not occupied by medical/dental tenants, the typical lease rate should be reduced to \$14 from the current \$17 in the interest of assessment equity. A listing of NE leases from "A" quality buildings, including 10 leases from a medical/dental property – Sunridge Professional Building, showed average and median rents of \$15.74 and \$16.50. If only the Sunridge Professional leases were considered, the result was a weighted average lease rate of \$17.79. This NE office evidence illustrated that "A" buildings were achieving the rents at which this "B" property was assessed. A further listing of 15 NW "B" office leases, including one medical/dental property, showed average and median lease rates of \$12.30 and \$12, in aid of the argument that a \$14 lease rate for the subject was reasonable. The Respondent had over-stratified the B class office inventory by creating the B medical/dental sub-class, with too few properties to be valid for mass appraisal purposes.

The Respondent submitted that none of the 15 NW equity comparables assessed at a \$14 rate were medical/dental properties, and countered with a list of 4 other NW "B" quality medical/dentals, all assessed at a \$17 typical lease rate and establishing equitable assessment. Eleven leases from this category, including 2 from the subject, produced a median of \$18 and weighted mean of \$17 to support the \$17 assessed rate. Another lease study of NW "B" offices produced a median of \$14 and weighted mean of \$15.08 versus an assessed typical rate of \$14 and established the difference between "B medical/dental" and "B office".

#### **Board Findings and Reasons:**

The subject is an outlier in terms of geography, being located in Bridgeland and yet grouped with a number of NW comparables. The CARB is not saying that this NW comparison is incorrect, yet, but the property also appears to be transitioning from fish to fowl. It was established in questioning that a hospital was located nearby but ceased operating in the recent past, perhaps contributing to the fact that including vacant space some 52% of the building is non-medical/dental. It was noted that post valuation date some 4194 sf of vacant space was taken up, alleviating a vacancy problem, but at a \$11.50 rate to a non-medical tenant. The CARB also noted a recent lease for 3857 sf at a rate of \$7 for 7 years. The Board finds that the subject should retain its status as a NW "B" quality medical/dental property and the concomitant \$17 lease rate, but observes its grip on this banner is tenuous. An examination of the rent roll shows the subject benefits from the high-priced presence of some commercial tenants, somewhat off-setting the recent low leases. Median rates of \$18 are generated by the medical tenants and \$16.70 by the non-medicals, leading the Board to conclude that at present, the \$17 typical lease rate is appropriate.

#### **Issue 2: Vacancy allowance**

A study of 6 NW "B" class medical/dental properties showed a mid year vacancy rate of 10% (13,216 sf vacant in an inventory of 132,849 sf). The subject contributed 5149 sf to the vacant space total. Subsequent to valuation date, 4194 sf of that vacant space was leased to a non-medical tenant at a rate of \$11.50 for a 7 year term commencing Oct 1, 2010. A larger study of 31 NW "B" offices showed a vacancy rate of 9.57%, and the Complainant urged the CARB to apply a 9.5% vacancy rate to the subject.

The Respondent presented a larger, 56 building NW vacancy study, made corrections to some of the data from the Complainant's information, and concluded a NW average B vacancy of 5.4% versus the 5.5% applied.

**Board Findings and Reasons:**

The Complainant had argued that the NW "B" quality medical/dental class sample was too small for purposes of mass appraisal when it came to rent rates. That argument was lost, but on occasion the chalice of disappointment holds wine of a soothing vintage. The CARB finds that the subset of medical/dental is worthy of its premium lease rate, and so should it be deserving of its own vacancy allowance. The evidence from both parties clearly shows a vacancy rate for the NW "B" medical/dentals of 9.9% or 10%, well in excess of the 5.4% average for B offices. The CARB decides the subject should receive a vacancy allowance of 10%.

**Issue 3: Parking revenue**

A December 2008 rent roll from the subject showed parking stalls achieving monthly rents of \$90 and \$100. The Complainant requested that the annual parking revenue be reduced from \$2160 to \$1080, i.e. a change from the close-to downtown rate to typical suburban enclosed parking rate.

The Respondent showed a 12-property NW parking study that concluded an average monthly rate of \$190 for neighbourhoods in close proximity to downtown. The subject ARFI for parking information was blank, and so there was no data from the subject to consider.

**Board's Findings and Reasons:**

The best evidence before the CARB was the December, 2008 rent roll from the subject which, though somewhat dated, showed most parking rents of \$90 per month, exactly the amount the City levies on typical suburban offices. The CARB reduces the annual parking value from \$2160 to \$1080. In a few other decisions, the Board has noted a data collection problem relating to parking information, and the Board's thinking seems entirely appropriate in this situation. Through the miracle of cut-and-paste, the CARB's pontifications are repeated as follows.

As the CARB understands it, ARFIs sent to owners come pre-populated with lease data such as rent rates, lease start dates, etc. and the accompanying letter instructs recipients to make corrections and updates to this information, and otherwise make no changes to information previously disclosed. Unfortunately, there is a separate page for parking lease information which comes unpopulated, or blank. The instruction letter apparently does not explain that due to certain system limitations, previous parking information is not retained, and needs to be filled out in its entirety regardless of previous disclosures. The CARB suspects that some owners would not fill in the parking data if nothing has changed, thus leaving a substantial data gap for the City to determine typical rates for underground parking. The CARB urges the City's Assessment Department to cure this deficiency through clearer communication.

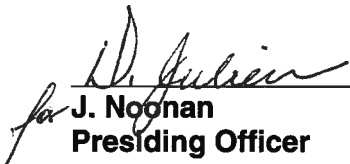
**Board Decision on the Issues:**

The Board reworked a capitalized income proforma by reducing the parking revenue to \$1080

per stall per annum and applying 2% deductions for vacancy and non-recoverables to find a NOI of \$38,378 for parking. Applying a 10% vacancy rate to the office space and typical shortfall allowance and non-recoverables produced a NOI of \$399,384. The capitalized value was \$5,002,994 prior to the exempt account deduction. At the hearing, the Board understood the exempt account was the Liver Foundation, occupying some 1958 sf. of space. The Board had some difficulty in trying to duplicate the original exempt deduction of \$370,500 and noted that the rent roll only showed 960 sf leased to the Liver Foundation. Leaving aside those difficulties without further comment, the Board found a NOI attributable to \$370,500 and added back the assessed 5.5% vacancy allowance, applied the new 10% vacancy, and found a capitalized value of \$351,790 as the appropriate exempt account deduction.

Giving effect to the changes described for vacancy allowance and parking, the Board reduces the assessment to \$4,650,000.

DATED AT THE CITY OF CALGARY THIS 19 DAY OF July 2011.

  
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.*