

**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, Section 460, Revised Statutes of Alberta 2000 (the Act).

between:

***Canadian Property Holdings (Alberta) Inc. (as represented by Altus Group),
COMPLAINANT***

and

The City Of Calgary, RESPONDENT

before:

***T. B. Hudson, PRESIDING OFFICER
S. Rourke, MEMBER
R. Kodak, MEMBER***

This is a complaint to the Calgary Assessment Review Board in respect of a property assessment prepared by the Assessor of The City of Calgary and entered in the 2012 Assessment Roll as follows:

ROLL NUMBER: 200683597

LOCATION ADDRESS: 12300 Symons Valley RD NW

FILE NUMBER: 68249

ASSESSMENT: \$82,230,000

This complaint was heard on the 17th day of August , 2012 at the office of the Assessment Review Board, located at Floor Number 3, 1212 – 31 Avenue NE, Calgary, Alberta, Boardroom 8.

Appeared on behalf of the Complainant:

- A. Izard
- B. Neeson

Appeared on behalf of the Respondent:

- B. Thompson
- H. Yau

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

[1]The parties agreed that the issue of a 2012 capitalization (Cap) rate for typical retail properties classified as Neighborhood, Community Centres would be argued in the context of complaint file # 66395.

[2] The Cap rate issue is also common to complaint file #'s 68268, 68380, 67985, 67954, **68249**, 68223, 68226, 66396, and 67217; that will all be heard by this panel of the Board.

[3] Therefore the parties agreed and the Board concurred; that the evidence, argument and decision of the Board with respect to complaint file # 66395 and the 2012 Cap rate issue, would be applied to all of the complaint files identified in point [2].

[4] The Complainant noted that they had identified information within the Respondent disclosure packages for some of the above noted complaint files; that was requested and refused under Section 299 and 300 of the Act.

[5] The Board takes the position that information formally requested by the Complainant under Section 299 and 300, and withheld by the Respondent, would be barred as evidence to be heard by the Board, as per the Matters Relating to Assessment Complaints Regulation (MRAC) Section 9(4).

[6] The MRAC Section 9(4) regulation states as follows; "A composite assessment review board must not hear any evidence from a municipality that was requested by a complainant under section 299 or 300 of the Act but was not provided to the complainant".

[7] The Respondent objected, characterizing the Board's position as prejudicial to their defence of the assessment. However, the Respondent did agree to proceed as per the Board's position.

[9] The parties also agreed that any 299 and 300 issue would be considered as a preliminary matter by the Board, prior to the merit hearing for each of the complaint files identified in point [2].

[10] With respect to complaint **file # 68249**; the Complainant submitted a formal Section 299 request to the Respondent's Assessment Business Unit (ABU), to provide the lease rates used to develop typical rates for Commercial Rental Unit (CRU), space in the 6,001 to 14,000 square foot (sf.) size range. The request was declined, however the requested information was subsequently included on pages 207 and 226 of Exhibit R1, in defence of the assessment.

[11] The Board therefore determined that as per MRAC Section 9(4), pages 207 and 226 of Exhibit R1 would be barred from the hearing.

[12] The Respondent pointed out that the Complainant's Rebuttal disclosure document (i.e. Exhibit C4), included response to issues that were not addressed in the disclosure document (i.e. Exhibit R1) of the Respondent, for this complaint **file # 68249**. By mutual agreement with the parties, the Board determined that pages 10-52, and pages 66-67 of Exhibit C4, were not relevant to complaint **file # 68249**. The parties also agreed that the relevance of the identified pages to the remaining complaint files listed in point[2] above, would be determined by the Board as a preliminary matter prior to the merit hearing on each property assessment complaint as required.

Property Description:

[13] The subject property is a Community/Neighborhood Shopping Centre known as Creekside Shopping Centre, located in the Symons Valley district of NW Calgary. The property includes a 40.87 acre parcel of land, and is improved with 305,853 square feet of commercial retail development. The current assessment based on the capitalized income approach to value is \$82,230,000.

Issues:

{A} Does Application of a 7.75% Cap Rate Produce a Better Estimate of Market Value for the Subject Property, than the 7.25% Cap Rate Applied in the Current Assessment?

{B} } Should the Assessed Rent Rate of \$10psf. for the Big Box 80,000+sf. Retail Space be Reduced to \$8psf.?

{C} Should the Assessed Rent Rate of \$24psf. for the 6,001 to 14,000sf. CRU space be Reduced to \$19psf.?

{D} Should the Assessed Rent Rate of \$45psf. for some Bank Space be Reduced to \$33psf.?

{E} Should the Subject Property be Assessed with a Vacancy Rate of 20% for all Non- Anchor Tenants?

{F} Should the Assessed Rent Rate of \$20psf. for Office Space be Reduced to \$15psf.? (this issue was dropped by the Complainant at the hearing).

Complainant's Requested Value: \$61,040,000

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

{A} The Board finds no compelling evidence to conclude that application of the requested Cap rate of 7.75% would result in an improved estimate of market value for the subject property.

[14] The Complainant submitted their version of a 2012 Cap rate analysis for typical neighbourhood, community shopping centres, {pages 299-309 of Exhibit C1(a) & (b)}, in support of the requested 7.75% Cap rate.

[15] Seven sales of neighbourhood, community shopping centre properties similar to the subject were analyzed to establish a typical cap rate, using two methodologies.

[16] The seven property sales occurred over a period of approximately 30 months prior to the valuation date of July 1, 2011. Five of the sales occurred in 2009, and two in 2011.

[17] The first methodology applied the assessed income for each property at the time of sale divided by the sale price, to arrive at a Cap rate average of 7.69%, and a median of 8.25% for the seven sales.

[18] The second methodology applied the Alberta Assessor's Association Valuation Guide (AAAVG), to determine typical market income for each property at the time of sale, divided by the sale price, to arrive at a Cap rate average of 7.80%, and median of 7.71% for the seven sales.

[19] The Respondent submitted the 2012 Neighborhood, Community Centre Capitalization Rate Summary (page 326 of Exhibit R1), in support of the assessed 7.25% Cap Rate.

[20] Six sales of neighbourhood, community shopping centre properties similar to the subject were analyzed resulting in a Cap rate average of 6.77% and a median of 6.71%.

[21] The six property sales occurred over a period of approximately 24 months prior to the valuation date of July 1, 2011. Three of the sales occurred in 2009, one in 2010, and two in 2011.

[22] Five of the property sales were common to the submissions of both parties, three of the five sales occurred in 2009 and the other two in 2011. These sales included: the Cranston Market on October 28, 2009; the Braeside Shopping Centre on December 14, 2009; the Calgary East Retail Centre on December 18, 2009; the Sunridge Sears Centre on January 19, 2011; and the Pacific Place Mall on May 27, 2011.

[23] The Complainant included two additional 2009 sales in their analysis: the McKnight Village Mall that sold May 1, 2009; and the Chinook Station Office Depot that sold January 20, 2009.

[24] The Respondent included one additional sale in their analysis: the Quarry Park sale of April 6, 2010.

[25] The Complainant suggested that the Quarry Park sale should be given little or no evidentiary weight, because the sale included an office complex, and the property is not a typical neighbourhood, community shopping centre.

[26] The Respondent noted that the McKnight Village and Chinook Station sales were not included in their 2012 Cap rate analysis, and should be given little or no evidentiary weight, because they occurred outside of the 24 month period preceding the July 1, 2011 valuation date.

[27] The Respondent also argued that the second methodology submitted by the Complainant should be given little or no evidentiary weight, because it mixes actual and typical values in arriving at NOI at the time of the sale. Cap rates should be derived by using typical values for all factors, because the Assessor must apply typical values in order to calculate assessments. This inconsistency can lead to assessment values that do not reflect the full fee simple interest.

[28] The Respondent also submitted an Assessment to Sale Ratio (ASR) Comparison Table, (page 148 of Exhibit R1) to demonstrate the impact on the ASR for the Complainant's seven property sales, when the assessed Cap rate of 7.25%, is changed to the requested Cap rate of 7.75%.

[29] The ASR was calculated by dividing the time adjusted sale price of each of the Complainant's seven sales by the estimate of assessment value produced by applying both the requested 7.75% cap rate, and the assessed 7.25% cap rate to the assessed NOI. The ideal ratio is 1.00 and the closer the estimate of assessed value is to 1.00, the closer the assessment estimate is to market value.

[30] Application of the requested 7.75% cap rate resulted in an average ASR of 0.89, and a median ASR of 0.87 for the seven sale properties. The assessed 7.25% cap rate resulted in an average ASR of 0.95, and a median ASR of 0.93.

[31] The Complainant argued that the ASR comparison evidence prepared by the Respondent should be given little weight, because the time adjustment factors used were not supported by market evidence.

[32] In their rebuttal submission (i.e. pages 136 to 165 of Exhibit C4), the Complainant quantified changes in net operating income (NOI), from the time of each of the seven sales to the July 1, 2012 valuation date; and proposed that the resulting median time adjustment factor of negative 11.48% could be applied to each of the seven sale prices.

[33] Application of the proposed negative 11.48% time adjustment factor to the sale prices resulted in a median ASR of 1.107 based on the assessed cap rate of 7.25%, and a median ASR of 1.036 based on the requested cap rate of 7.75%.

[34] The Respondent countered that changes in NOI from the time of sale to the valuation date could be attributed to many factors including space allocation, and lease arrangements for example. Without further analysis to eliminate the influence of factors other than time on NOI changes, using changes in NOI to establish a time adjustment factor is misleading.

[35] The Respondent also noted that even when sales are not adjusted, the ASR results are superior using the assessed Cap rate of 7.25%.

[36] When the analysis of each party is confined to the five sales common to their submissions, and to the application of the typical assessed NOI, **as corrected by the Complainant (page 102 of Exhibit C4)** at the time of each sale; the resulting Cap rate average is 7.14% and the median is 6.69%. This evidence supports the assessed Cap rate of 7.25%.

{B}The Board finds insufficient evidence to justify reducing the assessed rental rate for the Big Box Retail 80,000+ sf. space from \$10 to \$8psf.

[37] The Complainant submitted an analysis of market lease rates for retail anchor space in the 80,000+sf. range (page 120 of Exhibit C1(a)). The analysis included the current lease rates of eight 80,000+sf. retail properties, based on a high of \$14.50 psf. and a low of \$4.60 psf., and yielded a median market lease value of \$7.74psf., based on face rent. The median market lease value based on a high of \$12.00psf. and a low of \$4.60 was reduced to \$7.61psf., if net rent was considered for properties whose lease included a construction cost allowance.

[38] The Respondent submitted a list of five Big Box 80,000+sf. market lease rates for retail properties comparable to the subject (page 221 of Exhibit R1). The five properties yielded a median market lease value of \$10.00psf., based on a high of \$14.50psf., and a low of \$7.00psf.

[39] The Respondent noted that the \$10.00psf. rate is applied city wide in the assessment of typical Big Box 80,000+ retail properties, with the exception of those located within enclosed malls, downtown, the beltline, or regional shopping centres where lease rates are analyzed separately (pages 229-220 of Exhibit R1). Therefore, the Respondent argued that the analysis of the Complainant is misleading because it included lease rates for excluded properties.

[40] The Respondent also noted that the portion of the Complainant analysis based on net rent should be given little weight because deducting construction cost allowances from face rent leads to property assessments which do not represent fee simple estate value.

{C}The Board finds insufficient evidence to conclude that the assessed rental rate of \$24psf. for the 6,001 to 14,000sf. CRU space on the subject property should be reduced to \$19psf.

[41] The Complainant submitted a chart of four leasing examples in NW Calgary with rates ranging from \$17 to \$21 and a median of \$19psf. (page 71 of Exhibit C1(a)). An additional chart of city wide lease examples showed a median of \$17psf. (page 72 of Exhibit C1(a)).

[42] The Respondent argued that the evidence of the Complainant supports the assessed rate when only comparable NW properties are considered.

{D} The Board finds sufficient evidence to conclude that all of the Bank space on the subject property should be equitably assessed at \$33psf.

[43] See CARB 1480/2012-P adjudicated by this panel of the Calgary CARB.

{E} The Board finds that the rent roll evidence submitted by the Complainant justifies the conclusion that the subject is not a typical neighbourhood/community shopping centre, and that CRU vacancy should be recognized by a 20% allowance at minimum.

[44] The Board finds that the significant vacancy experienced in CRU space in the Property since 2007 did not change for the 2012 assessment year.

[45] Although not bound by previous CARB decisions (i.e. CARB 2089/2010-P, and CARB 1975/2011-P), the Board concurs with the rationale and conclusions reached in the adjudication of property assessment complaints on this same subject property.

In summary, and notwithstanding the previous findings on file # 68249, the Board finds insufficient evidence to support the current assessment of the subject property; and further that the \$63,270,000 assessed value that was agreed to by the Parties and confirmed by the CARB 1975/2011-P decision, be maintained in 2012.

Board's Decision: The assessment is reduced to the 2011 assessed amount of \$63,270,000.

DATED AT THE CITY OF CALGARY THIS 25 DAY OF SEPTEMBER 2012.



T. B. Hudson
Presiding Officer

APPENDIX "A"**DOCUMENTS PRESENTED AT THE HEARING
AND CONSIDERED BY THE BOARD:**

NO.	ITEM
1. C1 (a) and (b)	Complainant Disclosure
2. C2	ABU 299/300 Response
3. C3	Complainant Cap Rate Appendix
4. C4	Complainant Cap Rate Rebuttal
5. R1	Respondent Disclosure
6. C5	CARB 1975/2011-P

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*

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<i>Decision No. 1484/2012-P</i>			<i>Roll No 200683597</i>	
<u>Subject</u>	<u>Type</u>	<u>Sub-Type</u>	<u>Issue</u>	<u>Sub-Issue</u>
CARB	Retail	Neighborhood/Community Shopping Centre	Market Value	Cap Rate, Rent, CRU Vacancy