

**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:**

***RIOKIM Holdings (Alberta) Inc., (as represented by Altus Group Limited), COMPLAINANT***

**and**

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

**before:**

***L. Wood, PRESIDING OFFICER  
R. Roy, MEMBER  
T. Usselman, 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 2011 Assessment Roll as follows:

<b>ROLL NUMBER:</b>	<b>037163391</b>
<b>LOCATION ADDRESS:</b>	<b>3750 BRENTWOOD ROAD NW</b>
<b>HEARING NUMBER:</b>	<b>63790</b>
<b>ASSESSMENT:</b>	<b>\$57,390,000</b>

This complaint was heard on 9 day of August, 2011 at the office of the Assessment Review Board located at Floor Number 3, 1212 – 31 Avenue NE, Calgary, Alberta, Boardroom 11.

Appeared on behalf of the Complainant:

- *Mr. B. Neeson* *Agent, Altus Group Ltd.*

Appeared on behalf of the Respondent:

- *Ms. B. Thompson* *Assessor, City of Calgary*

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

The parties requested that their evidence and argument regarding to the issues of capitalization rate and chronic vacancy in files #63788 (the property located at 4122 Brentwood Road NW) and #63801 (the property located at 3501 Charleswood Road NW) be cross referenced to this complaint as the evidence and argument is similar. The Board agreed with the parties' request.

The subject property is part of an improved 335,819 sq. ft. community shopping centre known as the Brentwood Village Mall, located in the community of Brentwood. The three properties associated with the Brentwood Village Mall are under complaint:

- 3802 Brentwood Road NW (file #64124);
- 3750 Brentwood Road NW (file #63790); and
- 3501 Charleswood Road NW (file #63801).

The three properties will be heard by the same panel and separate decisions will be issued.

**Property Description:**

The property located at 3750 Brentwood Road NW is comprised of a 257,744 sq. ft. building, situated on 24.82 acres of land. The land use designation is Commercial Regional 3. The building was constructed in 1962 with additional improvements in the late 1970's, 1980's and early 2000's. The building is comprised of the following areas:

Sub Component	Area	Market Net Rental Rate
Bank	14,966 sq. ft.	\$24.00 psf
Bank	4,879 sq. ft.	\$29.00 psf
Car Wash & Space Area	3,994 sq. ft.	\$12.00 psf
CRU 0 - 1,000 sq. ft.	4,738 sq. ft.	\$24.00 psf
CRU 1,001 - 2,500 sq. ft.	18,600 sq. ft.	\$22.00 psf
CRU 2,501 - 6,000 sq. ft.	35,051 sq. ft.	\$20.00 psf
CRU 6,001 - 14,000 sq. ft.	31,270 sq. ft.	\$16.00 psf
Jr. Big Box 14,001 – 50,000 sq. ft.	109,102 sq. ft.	\$17.00 psf
Non-Retail Mezzanine	2,964 sq. ft.	\$ 1.00 psf
Office	7,119 sq. ft.	\$15.00 psf
Supermarket	25,061 sq. ft.	\$13.00 psf
<b>TOTAL</b>	<b>257,744 sq. ft.</b>	

There is an exempt portion of \$1,170,000 attributed to Alberta Health Services.

**Issues:**

1. The capitalization rate should be changed from 7.25% to 7.75%.
2. The vacancy rate should be changed from 7.5% to 15% to reflect its chronic vacancy.
3. The assessed rate for Jr. Big Box Space should be reduced from \$17.00 psf to \$15.00 psf.
4. The assessed rate for the Bank should be reduced from \$29.00 psf to \$24.00 psf.

**Complainant's Requested Value:** \$47,490,000

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

1. The capitalization rate should be changed from 7.25% to 7.75%.

The Complainant began his presentation by referring to several excerpts from court cases and Real Estate Appraisal texts in support of developing a correct capitalization rate methodology (cross - reference to file #63788, Exhibit C1, pages 31 - 33). He also noted in 2008 and 2009 the City of Calgary used actual net operating income adjusted for typical market conditions (cross-reference to file #63788, Exhibit C1 pages 37 - 38).

The Complainant submitted a 2011 Shopping Centre Capitalization Rate Analysis in support of a change in capitalization rate from 7.25% to 7.75% for the subject property's assessment (cross - reference to file #63788, Exhibit C1 pages 40 - 72). The Complainant's analysis was based on 5 shopping centre comparables that sold in 2009. The shopping centres ranged between 29,722 sq. ft. – 83,603 sq. ft which had sold for \$6,944,450 - \$32,000,000. The Complainant led the Board through the adjustments that he had made to the actual income to these sales, if required, to reflect typical market rents (cross - reference to file #63788, Exhibit C1 pages 40 - 77; Exhibit C3). He applied the same valuation parameters as the Respondent in terms of Major Space Vacancy (1%) CRU Space Vacancy (2%) and Office Space Vacancy (2%), Vacant Space Shortfall (\$8.50 psf) and Non-Recoverable Allowance (1%) to the sales comparables and established a capitalization rate of 7.35% - 8.66% for these sales comparables. The weighted mean was 7.71%. This formed the basis of the Complainant's request of 7.75% for a capitalization rate.

The Respondent submitted that the capitalization rate of 7.25% was based on a 30 - month time frame of sales that occurred of neighbourhood and community shopping centres (cross - reference to file #63788, Exhibit R1 page 178). She submitted 8 sales of neighbourhood shopping centres, 29,722 sq. ft. - 195,969 sq. ft., which had sold for \$6,944,450 - \$40,637,317 in 2008 - 2010 (cross - reference to file #63788, Exhibit R1 page 179). The Respondent set out the capitalization rate applied to the shopping centres based on their actual income parameters that ranged between 5.82% - 8.79% (median of 6.95% and an average of 7.02%). The Respondent also set out the capitalization rate that was derived using typical income parameters in the year of sale which ranged between 5.01% - 8.38% (median 7.04% and average 7.10%). It is based on the typical income parameters that the Respondent derived a

capitalization rate of 7.25%. She argued that less weight should be applied to the Complainant's methodology as he is mixing actual and typical income parameters to derive his capitalization rate which is not consistent. As well, it was based on the leased fee estate, as opposed to the fee simple estate.

The Board finds the Complainant did not present sufficient evidence to show that a change in the capitalization rate from 7.25% is warranted. During the hearing, the Complainant conceded that based on his capitalization rate analysis, the median is 7.5% which would be the appropriate rate to apply as opposed to the 7.75% as requested. The Board is reluctant to change a capitalization rate by a quarter of a percent (0.25%) without an abundance of sales in the market place to support such a change. Moreover, the Board notes the adjustment is so minimal that it would only result in a change to the subject property's overall assessment by 3%.

2. The vacancy rate should be changed from 7.5% to 15% to reflect its chronic vacancy.

The Complainant submitted the vacancy rate should be increased from 7.5% to 15% to reflect the subject property's chronic vacancy. The Complainant submitted the rent rolls for the Brentwood Village Mall (Exhibit C1 pages 118 - 125). Based on the total square footage of the three properties of 312,372 sq. ft., the rent rolls show that 36,223 sq. ft. was vacant in 2010 (11.5%) and 66,690 sq. ft. was vacant in 2009 (21%). The Complainant also submitted the CARB decision 1424-2010-P in support of a higher vacancy allowance to recognize site specific vacancy (Exhibit C1 pages 126 - 130).

The Respondent argued that the property does not have a history of chronic vacancy. She submitted that Brentwood Village Mall is under transition, based on a management decision, to redevelop the site. She submitted documents pertaining to the Brentwood Station Area Redevelopment Plan, including the Report to the Calgary Planning Commission dated June 23, 2011 (Exhibit R1 pages 228 - 338). The site will encompass retail and high rise condominiums. The Respondent submitted the Assessment Request for Information ("ARFI") for the Brentwood Village Mall for 2008 - 2011 (Exhibit R1 pages 59 - 143). The Respondent drew the Board's attention to the ARFIs for the subject property (Exhibit R1 pages 59 - 92). The ARFI reflects that the 257,540 sq. ft. of the total rentable area, there was 5,549 sq. ft. vacant in 2008 (2.1%); 45,669 sq. ft. was vacant in 2009 (17.9%); and 11,318 sq. ft. was vacant in 2010 (4.4%). The Respondent also included the 2011 ARFI (for information purposes) which reflected several tenants are relocating because of the redevelopment (Exhibit R1 pages 87 - 92).

The Board finds that the subject property is under transition to be redeveloped. The Board notes the Complainant acknowledged that the redevelopment had started in 2009 for the subject property. The Board finds the Complainant failed to establish a consistent pattern of chronic vacancy for the subject property for the past several years. In fact, the ARFIs reflect little vacancy for the subject property in 2008 and 2010. It is reasonable to attribute the high vacancy of 17.9% in 2009 to the start of the redevelopment. The Board also noted the Complainant did not explain how he derived a factor of 15% for chronic vacancy.

3. The assessed rate for Jr. Big Box Space should be reduced from \$17.00 psf to \$15.00 psf.

The Complainant submitted the assessed rate for the Junior Big Box space should be reduced from \$17.00 psf to \$15.00 psf. He submitted the **Altus Group Box Store Leasing Summary for Junior Big Box Stores that are 20,000 to 50,000 sq. ft.** (Exhibit C1 page 132). The

analysis was based on 56 leases that ranged between \$9.10 psf to \$24.00 psf (median of \$14.00 psf) that had commenced in November 1986 to June 2010. The analysis included the three areas under complaint for the subject property:

Jr. Big Box Store	Area	Lease Rate	Lease Start	Lease End
Bed Bath & Beyond	37,809 sq. ft.	\$17.00 psf	Sept. 8, 2009	Jan. 31, 2020
Sears Home	46,043 sq. ft.	\$12.50 psf	Mar. 1, 2000	Feb. 28, 2015
London Drugs	25,250 sq. ft.	\$14.25 psf	Feb. 9, 1988	Feb. 28, 2013
<b>Total</b>	<b>109,102 sq. ft.</b>			

The Complainant also submitted two equity comparables that were assessed at \$12.00 psf in support of a \$15.00 psf rate (Exhibit C1 pages 133 – 145).

The Respondent submitted 30 lease comparables of Junior Big Box space (14,001 – 50,000 sq. ft.) in support of the \$17.05 psf rate (Exhibit R1 page 173). The leases ranged between \$12.50 psf to \$28.00 psf (median of \$17.00 psf) that had commenced in January 2008 to October 2010. The Respondent also included 62 equity comparables of Junior Big Box space that were assessed at \$17.00 psf (Exhibit R1 pages 171 & 172).

The Board finds the Complainant's leasing analysis for Junior Big Box space confirms the current assessed rate of \$17.00 psf. The Board noted that one year leading up to the valuation date (i.e. July 1, 2009 – July 1, 2010), there were 8 leases signed for \$13.50 psf - \$24.00 psf, (which includes the subject's Bed Bath & Beyond), the median of those leases was \$17.00 psf. The Board placed little weight on the Complainant's two equity comparables presented as they were located outside of the NW quadrant, and there was little detail provided to determine their similarity with the subject property.

4. The assessed rate for the Bank should be reduced from \$29.00 psf to \$24.00 psf.

The Complainant submitted there are three bank areas associated with this property. The Bank of Montreal leases 9,432 sq. ft. at \$31.00 psf and Alberta Treasury Branch leases 5,534 sq. ft. at \$26.50 psf, both are assessed at \$24.00 psf. Calgary First Savings leases 4,879 sq. ft. at \$33.00 psf and was assessed at \$29.00 psf. Based on equity the Complainant argued that the three banks should be assessed at \$24.00 psf.

The Respondent submitted the assessed rates for banks (CRU and PAD types) located throughout the City are based on year of construction. The Respondent submitted a **2011 Bank Lease Study** in support of the assessed rates (Exhibit R1 pages 148 - 150). The Board has set out a simplistic version of that study for illustrative purposes, as follows:

Year of Construction	Areas	Lease Starts	Lease Rates (\$/psf)	Assessed Rate (\$/psf)
2008 and newer	3,385 – 7,329	Jan. 2008 – Jan. 2010	\$26.00 - \$58.00 psf	\$43.00 psf
2005 – 2007	4,952 – 6,097	Jun. 2007 – Apr. 2008	\$26.00 - \$47.00 psf	\$32.00 psf
1990 – 2004	3,998 – 10,694	May 2007 – Sept. 2010	\$26.00 - \$45.00 psf	\$29.00 psf
1980 – 1989	3,260 – 6,728	Apr. 2007 – Oct. 2009	\$16.00 - \$33.50 psf	\$26.00 psf
Up to 1979	2,500 – 10,567	Mar. 2007 – Jun. 2010	\$17.00 - \$33.50 psf	\$24.00 psf



The Respondent indicated the year of construction was a factor that the Board took into consideration in the past.

The Board finds there is no demarcation in the assessed bank rates based on year of construction. In reviewing the assessed rates, there is no apparent relationship between the age of the building and the rents achievable. The Board also notes the Respondent failed to explain the break points and how they relate to year of construction. Moreover, the year of construction for the subject banks was not in evidence. As such, the Board placed little weight on the Respondent's 2011 Bank Lease Study. In regards to the bank spaces associated with the subject property, the Board finds that an adjustment would be marginal: 0.5% downward adjustment to the overall assessment. However, if left unaddressed, there would be inequity amongst the three banks within the same complex. As such, the Board reduces the assessed bank rate for the 4,879 sq. ft. space (Calgary First Savings) from \$29.00 psf to \$24.00 psf.

**Board's Decision:**

The decision of the Board is to revise the 2011 assessment for the subject property from \$57,390,000 to \$57,094,000 (truncated) with the exempt portion of \$1,170,000 remaining unchanged.

DATED AT THE CITY OF CALGARY THIS 15 DAY OF NOVEMBER 2011.

  
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**Lana J. Wood**  
**Presiding Officer**

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

<b>EXHIBIT NO.</b>	<b>ITEM</b>
1. C1	Complainant's Submission file #63801 (Note: The Complainant's evidence submission pertains to 3750 Brentwood Road NW; 3802 Brentwood Road NW; and 3501 Charleswood Drive NW)
2. C2	Complainant's Rebuttal file #63778 for property located at 4122 Brentwood Road NW
3. C3	Complainant's Capitalization Rate Analysis & Argument file #63778
4. C1	Complainant's Submission file #63778
5. R1	Respondent's Submission file #63790
6. R1	Respondent's Submission file #63778

*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.*

**FOR ADMINISTRATIVE USE**

Subject	Property Type	Property Sub - Type	Issue	Sub - Issue
CARB	Retail	Neighbourhood Mall	Income Approach	Capitalization Rate; Net Market Rent/Lease Rates; Expenses; Equity Comparables