

**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:**

***Airstate Ltd. (as represented by Colliers International Realty Advisors), COMPLAINANT***

**and**

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

**before:**

***W. Kipp, PRESIDING OFFICER***

***I. Fraser, MEMBER***

***J. O'Hearn, 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>054 008 701</b>
<b>LOCATION ADDRESS:</b>	<b>2912 Memorial Drive SE, Calgary AB</b>
<b>HEARING NUMBER:</b>	<b>61336</b>
<b>ASSESSMENT:</b>	<b>\$6,910,000</b>

This complaint was heard on the 8<sup>th</sup> day of August, 2011 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:

- *Scott Meiklejohn*

Appeared on behalf of the Respondent:

- *Christina Neal*

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

There were no procedural or jurisdictional matters to be decided. The hearing moved directly to the merit evidence.

**Property Description:**

Intergraph Building – a three storey suburban office building at 2912 Memorial Drive SE. While the property has exposure to Memorial Drive and a civic address on Memorial Drive, there is no access to the property from that thoroughfare. Access to the property is from 2 Avenue SE, east of 28 Street SE. The northeast leg of Calgary's Light Rail Transit system (LRT) runs down the centre of Memorial Drive SE. The nearest LRT station is a block or two west of 28 Street SE. The building contains 68,278 square feet of office space and 665 square feet of storage space. There are surface parking lots adjacent to the building. The year of building construction was 1979.

The 2011 assessment of \$6,910,000, based on application of a mass appraisal income approach, represents \$100.23 per square foot of building area.

**Issues:**

The Assessment Review Board Complaint form was filed March 2, 2011. On the form, Box 3 (Assessment Amount) was checked in Section 4. Attached to the form was an expanded Section 5 listing a number of issues or matters regarding the subject property assessment.

At the hearing, the Complainant pursued three issues:

1. Property class should be "C+" rather than "B";
2. Market value indicators; and
3. The property is not equitably assessed when compared to other similar properties.

**Complainant's Requested Value:** \$5,210,000

**Party Positions:****Complainant's Position on the Issues:****1. Property Class:**

The subject property is assessed by the City of Calgary as a Class "B" suburban office building. The Complainant argues that it should be in the "C+" class.

Argument for the change in class centres on the property location, age and size. The subject property is located in the Franklin community which is not a significant suburban office area. It is inferior to communities such as South Airways and Horizon which have more office properties. Access to the subject property is not as easy as the Memorial Drive address suggests. Memorial Drive traffic must travel a short distance north on 28 Street SE and then turn right onto 2 Avenue SE in order to access the property. Eastbound Memorial Drive traffic is hampered somewhat by the left turn signals at 28 Street SE which give right of way preference to LRT traffic over roadway traffic. Lastly, the subject building is of an age and size that fit within the ranges for Class "C" suburban properties.

The rent rate is one of the input factors in the income approach valuation model. If the property was reclassified, the office rent rate would be reduced from \$12.00 to \$10.00 per square foot. Input factors for operating costs, non-recoverable costs and capitalization rate are not contested. Although the assessor does not change the vacancy allowance for each property class (i.e., the 12% vacancy allowance applies to all Class "B" and "C" properties in the market area), the Complainant requested that this rate be increased to 14% for the subject assessment.

As a Class "C+" office, the office rent rate applicable to the subject should be reduced from \$12.00 to \$10.00 per square foot. A rent roll for the subject building showed that there has been no new leasing since one lease in May 2008 and that lease was for a small amount of space. The lease was at a \$22.00 per square foot rent rate, typical for the date which was at the height of the strong market era which ended shortly thereafter. Overall, the weighted average rate for all office leases in the building was \$14.00 per square foot. A full floor lease to Telus Mobility at a rate of \$10.13 per square foot commenced in 2005 but it is a good representation of current rent.

A Comparable Rent Summary table in Exhibit C1 set out some detail on 21 lease transactions in office buildings in the northeast quadrant, including five in Franklin. All of these leases were in Class "B" buildings but the Complainant maintains that those at the low end of the range provide an indication of the appropriate rent rate for the subject. The weighted mean of all 21 leases was \$10.70 per square foot. Mean and median averages were \$10.98 and \$11.50, respectively. If just the five Franklin leases are considered, the range is from \$6.00 to \$12.00 per square foot. Another table showed rent comparables offered by the Respondent City of Calgary. If some of the obviously non-representative leases are removed from the list, the averages give further support to the Complainant's requested \$10.00 per square foot rate.

Even though all Class "B" and "C" office properties in the market area are assessed using a 12% vacancy input factor into the income approach formula, the subject vacancy should be set at 14%. The Complainant conceded that there was a 0% vacancy in the subject building. A summary chart in Exhibit C1 showed vacancy rates found by Colliers International in their quarterly surveys of the suburban office market. For the Northeast sector, overall vacancy for

Class "A", "B" and "C" offices was 13.18% in the first quarter of 2010 and 13.36% for the second quarter. For Class "C" buildings, first quarter vacancy was 15.53% while that for the second quarter was 16.58%. Copies of the quarterly surveys were provided to support the Complainant's claim for a 14% vacancy allowance.

## 2. Market Value:

Market value is stated to be one of the issues of this complaint. The Complainant's evidence includes a table setting out pertinent details of 21 suburban office sales, taken from all suburban areas of Calgary. The Complainant argued that these sales could not have been used by the Respondent in preparing office property assessments because of the very low Assessment to Sales Ratios (ASR's) derived from the sales. Two of the sales were Class "B" properties in the northeast quadrant. 2008 sales prices for these two properties represented \$171.85 and \$253.74 per square foot but the assessments are only \$101.13 and \$101.01 per square foot, respectively. These sales and assessments indicate ASR's of just 0.59 and 0.40 whereas the assessor must typically strive for ASR's between 0.95 and 1.05. The average ASR for all 21 sales was only 0.65, still much lower than the acceptable range. The list contained mostly sales data on Class "A" properties so there is no good market value indicator available for the subject based on mean or median prices per square foot of building area.

## 3. Equity:

The Complainant provided data on four "C" and "C+" properties, all in the northeast quadrant which support the Complainant's argument that the subject assessment is too high. These four properties are all of similar age to the subject. The buildings are all smaller than the subject (25,108 to 52,269 square feet versus 68,943 square feet). The assessments for these properties are \$81.37, \$79.78, \$81.25 and \$81.32 per square foot of building area and they all provide support for the requested assessment which represents \$75.57 per square foot.

### Respondent's Position on the Issues:

#### 1. Property Class:

Firstly, the Respondent questioned the Complainant's contention that the subject property should be in the Class "C+" stratum when there was no evidence put before the Board to support that contention. Further, the Complainant's office rent data was all from Class "B" properties, not "C" or "C+" properties. The location of the subject and access to it do not put the property into a lower class. There is good exposure to Memorial Drive which is one of the major east-west routes through this part of the city.

With respect to the rental rate for office space, the Respondent argued that the subject property rent roll supports a rate of \$15.00 per square foot, a higher rate than the assessed \$12.00 per square foot rate. The Respondent provided the same rent table that the Complainant had referenced in its evidence. This table supported the \$12.00 per square foot Class "B" office rent rate.

All northeast office properties are assessed on the basis of a 12% vacancy allowance. The subject property has a vacancy of 0%.

## 2. Market Value:

The Respondent did not specifically address the market value issue. While the Complainant stated that market value was an issue, the only market sales evidence provided was to show that the Respondent City of Calgary could not have based assessments on sale prices of office properties and the Complainant had not drawn any value conclusion from the sales evidence.

## 3. Equity:

Included in the Respondent's Exhibit R1 was a table of data on eight northeast office properties, including two in Franklin. The data showed that all eight of these Class "B" properties were assessed using the same \$12.00 per square foot office rent rate as was applied to the subject. All of these equity comparables were of similar age to the subject.

### **Board's Decision:**

The 2011 assessment is confirmed at \$6,910,000.

### **Reasons for the Board Decision:**

#### 1. Property Class:

There is no evidence that convinces the Board to change the property classification from "B" to "C+".

The Complainant's arguments regarding location, access, age and size are not supported by market evidence. Examples of both Class "B" and Class "C" properties had many of the same characteristics as the subject. Based on evidence available to it, the Board was unable to support a decision to change the subject property classification.

The typical office rent rate differs depending on class. For Class "B" properties, the rate is \$12.00 per square foot but for Class "C+" properties, it is only \$10.00 per square foot. The Complainant's rent evidence comes from just Class "B" properties. The Respondent has Class "B" rent data as well.

With respect to rent rates, the Respondent is correct in stating that actual rents from premises in the subject property support \$15.00 per square foot. The Board does not place much weight on this because of the commencement dates of the leases. There were no leases that started during the valuation year. The newest lease commenced in 2008 and the market has apparently changed significantly since then. Nevertheless, the rent roll shows that at the valuation date, the subject property was generating net income of over \$960,000 even though this might change within a couple of years when existing leases expire. The direction and extent of change will depend on market conditions when the existing leases expire in 2012, 2013 and 2015.

The Board does not accept the Complainant's argument for an increase in the vacancy rate. All

Northeast zone office properties, regardless of classification, are valued by the income approach wherein the typical vacancy rate is set at 12%. Averages from one analyst's quarterly market surveys is insufficient to support a change in the rate for the subject's class. The Board also notes that there is no vacancy in the subject property, therefore it is not atypical of offices within its market zone.

2. Market Value:

The Complainant provided a list of suburban office property sales but drew no value conclusion from the sales. The data was provided to support the argument that the Respondent could not have relied upon sales in making assessments because the ASR's clearly indicate that there is consistent, reliable relationship between sales prices and assessed values. The Respondent did not claim to have relied upon any sales evidence. The Board does not place any weight on the sales data as presented but notes that two Class "B" sales in the northeast were at prices of \$171.85 and \$253.74 per square foot of building area and those properties were assessed at similar rates to the subject (\$101.13 and \$101.01 per square foot versus \$100.23 for the subject).

3. Equity:

Both parties presented evidence of assessments on other office properties of similar age to the subject. The Respondent's equity comparables lacked detail but it did show that there were other northeast office properties assessed using the same rental rate as was used in the subject assessment. Comparables put forward by the Complainant were of similar age to the subject but the building sizes were smaller. As with the Respondent's evidence, there was no further detail that could be used in making comparability judgements.

The conclusion of the Board is similar to that respecting some of the other argument and evidence – both parties have provided limited detail on comparables and on the surface at least, both appear to have provided relevant comparables. Without additional detail on comparables, the Board is unable to state that the comparables of one party are superior to those of the other party.

The assessment is therefore confirmed at \$6,910,000.

DATED AT THE CITY OF CALGARY THIS 18 DAY OF August 2011.

  
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W. Kipp  
Presiding Officer

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

<b>NO.</b>	<b>ITEM</b>
1. C1	Complainant Disclosure
2. C2	Support for Exhibit C1 Sales
2. R1	Respondent Disclosure

*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.*