

**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:

***Bel-Aire Development Ltd/Quintra Development Ltd
(as represented by Altus Group Limited), COMPLAINANT***

and

The City Of Calgary, RESPONDENT

before:

***M. Vercillo, PRESIDING OFFICER
P. Charuk, 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:

ROLL NUMBER: 200558971

LOCATION ADDRESS: 16919 24 ST SW

HEARING NUMBER: 64528

ASSESSMENT: \$10,750,000

This complaint was heard on the 28th day of September, 2011 at the office of the Assessment Review Board located at Floor Number 4, 1212 – 31 Avenue NE, Calgary, Alberta, Boardroom 3.

Appeared on behalf of the Complainant:

- *A. Izard*

Appeared on behalf of the Respondent:

- *M. Byrne*

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

The Calgary Composite Assessment Review Board (CARB) derives its authority to make this decision under Part 11 of the Act. No specific jurisdictional or procedural issues were raised during the course of the hearing, and the CARB proceeded to hear the merits of the complaint, as outlined below.

Property Description and Background:

The subject property known as Bridlewood Centre, is a multi-tenanted commercial retail strip mall located in the community of Bridlewood in SW Calgary. The property contains three buildings, built in 2008, with a net rentable area (NRA) of 32,545 square feet (sf) and is situated on an assessable land area of approximately 3.26 acres or 141,981 sf.

According to the Respondent's information, the subject property is assessed using the Income Approach including the following parameters:

- A vacancy allowance of 6.5%
- Bank space: \$43.00 per square foot (psf).
- CRU space < 1,000 sf: \$27.00 psf
- CRU space 1,001 – 2,500 sf: \$26.00 psf
- CRU space 2,501 – 6,000 sf: \$25.00 psf
- Retail Upper space: \$15.00 psf

Issues:

The CARB considered the complaint form together with the representations and materials presented by the parties. There were a number of matters or issues raised on the complaint form; however, as of the date of this hearing, the Complainant addressed the following issues:

- 1) That the assessed vacancy allowance applied to the subject should be increased to 25% due to chronic vacancy.
- 2) That the assessed rent rates applied to the subject areas should be changed as follows:
 - a) Bank space: \$32.00 psf
 - b) CRU space < 1,000 sf: \$25.00 psf
 - c) CRU space 1,001 – 2,500 sf: \$22.00 psf
 - d) CRU space 2,501 – 6,000 sf: \$19.00 psf
 - e) Retail Upper space: \$12.00 psf

Complainant's Requested Value:

\$6,620,000 on the complaint form revised to \$6,190,000 or alternatively \$6,790,000 at this hearing.

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

ISSUE 1: That the assessed vacancy allowance applied to the subject should be increased to 25% due to chronic vacancy.

The Complainant provided a document entitled "Bridlewood Centre Evidence Submission" that was entered as "Exhibit C1" during the hearing. The Complainant along with Exhibit C1 provided the following evidence with respect to this issue:

- A letter dated April 30, 2009 from the Bridlewood Joint Venture to the Complainant that indicated various vacancy issues that the owners were experiencing. The letter describes how various tenants have experienced financial difficulties and have either vacated or have agreed to reduced rental rates from previously signed agreements.
- A June 30, 2011 Rent Roll of the subject property. The rent roll indicated the subject property had a vacancy rate of 22.28%.
- A November, 2009 Rent Roll of the subject property. According to the Complainant, the rent roll indicated the subject property had a vacancy rate of 23%.
- An April 17, 2009 Assessment Request for Information (ARFI), that indicated that 11,299 sf out of a total rentable area of 32,443 sf remained vacant. This translates into a 34.83% vacancy rate.
- A December, 2008 Rent Roll of the subject property. The rent roll indicated the subject property had a vacancy rate of 34.68%.
- A series of photographs of mostly vacant space that showed the amount of finish contained within those spaces.
- During questioning, the Complainant indicated that in his opinion, vacancy is considered "chronic" when vacancy issues are experienced for at least 2 to 3 years. Since the subject finalized construction in late 2008, chronic vacancy should be considered.
- The Complainant concluded that a 25% vacancy allowance is warranted given the experience of the subject. The subject was built in a new and relatively underdeveloped part of the city. The rate of development has not met expectations and the subject will likely experience chronic vacancy issues for the foreseeable future.

The Respondent provided a document entitled "Assessment Brief" that was entered as "Exhibit R1" during the hearing. The Respondent along with Exhibit R1 provided the following evidence with respect to this issue:

- A summary table of 2011 capitalization (cap), vacancy and operating cost rates used by the Respondent in assessing various types of retail shopping complexes. The table provided information such as:
 - A 7.50% cap rate is applied for assessing a strip mall (like the subject) versus a 7.25% cap rate is used for neighborhood shopping centres.
 - A 6.5% vacancy rate is applied for assessing a strip mall (like the subject) versus a 4.00% vacancy rate is used for neighborhood shopping centres in the SW quadrant of the city.
 - An \$8.00 operating cost rate is applied for assessing a strip mall (like the subject) versus a \$7.00 operating cost rate is used for neighborhood shopping centres in

the SW quadrant of the city.

- During questioning, the Respondent indicated that in assessing properties like the subject, vacancy is considered “chronic” when vacancy issues are experienced for at least 3 years. Since the subject finalized construction in late 2008, for assessment purposes the 3 years have not yet been realized and should therefore not be considered.

The CARB finds the following with respect to this issue:

- That the Respondent has fairly and equitably considered “chronic” vacancy in the assessment of the subject. Without any evidence of any physical challenges other than location affecting the property, the CARB is of the opinion that the 3 year chronic vacancy policy used by the Respondent is warranted.

ISSUE 2: That the assessed rent rates applied to the subject areas should be changed as follows:

(a) Bank space:	\$32.00 psf
(b) CRU space < 1,000 sf:	\$25.00 psf
(c) CRU space 1,001 – 2,500 sf:	\$22.00 psf
(d) CRU space 2,501 – 6,000 sf:	\$19.00 psf
(e) Retail Upper space:	\$12.00 psf

The Complainant along with Exhibit C1 provided the following evidence with respect to this issue:

- An equity comparable known as “Evergreen Village Centre”, assessed as a neighborhood shopping centre but similar in size to the subject property. Evergreen is located about 1.2 km northeast and in a more established area than the subject. Evergreen was built in 2004 and is assessed on 30,733 sf, similar to the subject in size. The Complainant compared the assessed rates and the median lease rates achieved for equivalent spaces under issue, of the subject property and Evergreen. The following was calculated:

Space Type	Evergreen Village (Comparable)		Bridlewood Centre (Subject)	
	Assessed	Median	Assessed	Median
CRU space < 1,000 sf	\$25.00	\$24.00	\$27.00	\$28.00
CRU space 1,001 – 2,500 sf	\$22.00	\$28.00	\$26.00	\$30.00
CRU space 2,501 – 6,000 sf	\$19.00	\$26.00	\$25.00	\$30.00
Retail Upper space	\$12.00	\$20.00	\$15.00	-

The Complainant concluded that the subject should be assessed at the same rates as the Evergreen comparable, particularly since there have been material reductions in the subject's rental rates from the median rates reflected in the table due to vacancy concerns.

The Respondent along with Exhibit R1 provided the following evidence with respect to this issue:

- An 8 page summary, defining the differences between shopping centres. The examples used were neighborhood shopping centres, community shopping centres, regional shopping centres, super regional shopping centres, power centres and strip malls. Highlighted in the presentation were the neighborhood shopping centres, such as the

Evergreen comparable used by the Complainant and strip malls such as the subject. The neighborhood shopping centre is "designed to provide convenience shopping for the day-to-day needs of consumers in the immediate neighborhood.....roughly half of these centres are anchored by a supermarket, while about a third has a drugstore anchor." The strip shopping centre is usually unanchored and is simply "an attached row of stores and service outlets managed as coherent retail entity.

- The Respondent concluded that the comparable used by the Complainant is different than the subject in that one is a neighborhood shopping centre and one is a strip mall. Accordingly they are assessed differently with different rental rates, vacancy rates, operating cost rates and cap rates. Therefore, the rental rates offered by the comparable should not be used to assess the subject.

The CARB finds the following with respect to this issue:

- That the comparable used by the subject is not the same type of shopping centre as the subject. The CARB notes that subject is unanchored while the Evergreen comparable is anchored by the drug store; Shoppers Drug Mart. This distinction alone would meet the definitions provided by the Respondent with respect to neighborhood shopping centres and strip malls. The CARB is wary to change the assessed rental rates of the subject without a proper analysis of the other variables that were used in the assessment such as cap rates and operating cost rates.
- That the ARFI provided by the Complainant are supportive of the assessed rates.

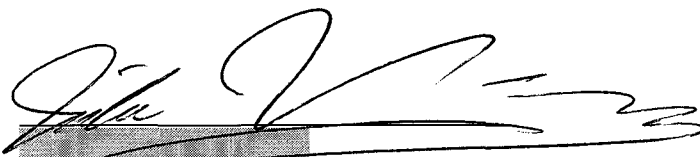
Board's Decision:

The complaint is denied and the assessment is confirmed at \$10,750,000.

The CARB determined the following in arriving at its decision:

- The subject property was constructed in 2008 in a developing area of SW Calgary. Although development in the area has not met expectations, this alone cannot warrant a consideration for an increased vacancy allowance. Speculative construction in a new and developing area, is part of the risk that an owner assumes when dealing with vacancy. To be considered chronic a period of time must pass until a stabilized occupancy is attained. Without any physical abnormalities such as contamination of the property for example, the CARB is of the opinion that the Respondent is justified in waiting at least 3 years before an adjustment to vacancy can be considered.
- The CARB finds that the Complainant failed to provide sufficient evidence that the comparable used in his analysis is sufficiently similar to the subject to warrant the same assessed rental rates. Moreover, the CARB is not prepared to adjust the assessed rental rates of the subject without consideration to adjusting the other variables used in the Income Approach of the comparable such as cap rates and occupancy cost rates without evidence.

DATED AT THE CITY OF CALGARY THIS 5 DAY OF OCTOBER 2011.



Presiding Officer

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

NO.	ITEM
1. C1	Complainant Disclosure
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.*