

**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:**

***Telus Communications Inc. (as represented by Colliers International Realty Advisors),  
COMPLAINANT***

**and**

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

**before:**

***Board Chair, J. Zezulka  
Board Member 1, M. Peters  
Board Member 2, J. Massey***

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: 068076108**

**LOCATION ADDRESS: 120 – 7 Avenue S.W.**

**HEARING NUMBER: 64501**

**ASSESSMENT: 16,700,000.00**

This complaint was heard on 21 day of September, 2011 at the office of the Assessment Review Board located at Floor Number Three, 1212 – 31 Avenue NE, Calgary, Alberta, Boardroom Eight.

Appeared on behalf of the Complainant:

- *S. Miekcljohn*

Appeared on behalf of the Respondent:

- *D. Lidgren*
- *H. Neumann*

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

There were no procedural or jurisdictional matters to be dealt with.

**Property Description:**

The subject consists of the Telus office building, which is a 9 storey, class B- office building located in zone DT1. The building is the former switching station used by Telus to house telephone switching equipment. About half of the building is now used as the Telus office .The building area is 151,675 s.f., of which 72,019 s.f. is office, and 79,656 s.f. is storage. There is no retail space, and there is no parking within the building. The improvement was built in 1958.

**Issues:**

The premises are currently assessed using the income approach. The rent applied by the City is \$14.00 per s.f. for the office area, and \$10.00 for the storage area. The assessed vacancy rate is 8.0 per cent. The capitalization rate applied is 9.00 per cent. The current assessment calculates to \$110.10 per s.f. of building area.

The Complainant does not dispute the valuation method. Following are the issues as presented

1. The building is more suited as a Class C building than a Class B- building.
2. The office rent ought to be \$10.00 per s.f.
3. A vacancy allowance of 13.5 per cent is more appropriate
4. The capitalization rate should be 9.5 per cent.

There are no other issues.

**Complainant's Requested Value:** \$11,330,000.00

**Evidence**

The Board notes that the assessment has decreased from \$27,310,000 in 2010 to the current level in 2011.

## 1.) Building Classification

Neither party presented any specific evidence to either support or discredit the current building classification. The "blanket" statement offered by the Complainant is that the subject building "performs" more like a class C building rather than an B- building. In the opinion of the Board, the physical differences in classes are not clear and can be subject to interpretation. The difference in performance, on the other hand, is a question of achievable rents, vacancy allowance, operating costs and, ultimately, capitalization rate. And, each of those is dealt with separately in the issues presented by the Complainant.

## 2.) Office Rent

The subject is entirely owner occupied.

The Complainant submitted a lengthy and detailed rental analysis of downtown office leases for class B buildings. The results are summarized as follows;

|            | Mean    | Median  |
|------------|---------|---------|
| Q2 2010    | \$11.80 | \$12.00 |
| Q2/Q3 2010 | \$12.27 | \$12.44 |
| Q3         | \$12.52 | \$13.00 |

The Complainant did not submit any rental evidence relative to class C buildings.

In evidence, the Respondent presented a number of rental analyses, as follows;

## Rental Rates by Industry

|                       |             |                   |         |               |
|-----------------------|-------------|-------------------|---------|---------------|
| CBRE Q2 2010          | Class B     | \$16.76           |         |               |
|                       | Class C     | n/a.              |         |               |
| Barclay               | Class B     | \$12.00 - \$16.00 |         |               |
|                       | Class C     | \$8.00 - \$15.00  |         |               |
| Avison Young          | Class B     | \$13.00           |         |               |
|                       | Class C     | \$10.00           |         |               |
| City of Calgary       |             | mean              | median  | weighted mean |
| 2011 class B DT1      | all leases  | \$23.72           | \$23.50 | \$25.61       |
|                       | 2010 leases | \$20.00           | \$19.50 | \$20.31       |
| 2011 class B DT2      | all leases  | \$16.20           | \$14.00 | \$16.38       |
|                       | 2010 leases | \$14.28           | \$13.00 | \$14.53       |
| 2011 class B- DT1     | all leases  | \$17.15           | \$16.00 | \$17.37       |
|                       | 2010 leases | \$15.50           | \$15.00 | \$15.69       |
| Comparable properties |             |                   |         |               |
| United Place          |             |                   | \$13.00 |               |
| Manulife House        |             |                   | \$14.00 |               |

The Board notes that the Respondent's rental rate of \$10.00 per s.f. for the storage portion of the subject went unchallenged by the Complainant.

## 3) Vacancy Allowance

The Complainant submitted a third party reporting agency survey regarding office building vacancy rates from 2002 to the fourth quarter of 2010. The earlier data is of little help to the Board. However, for Q2, 2010, the headlease vacancy for class B buildings was reported at

13.45 per cent. For Q3, the rate declined to 11.68 per cent. The Q3 statistic is post facto. For class C buildings, the total Q2 vacancy was reported at 14.53 per cent, including sub-lease space.

The Respondent presented third party studies that showed Q2 2010 vacancies for class B buildings ranging from 7.93 to 13.45 per cent. The median vacancy derived from the Assessment Request for Information (ARFI) forms for class B buildings in DT1, DT2 and DT8 was 7.33 per cent. The class B, DT2 vacancy in isolation appeared at 12.28 per cent.

#### **4)Capitalization Rates**

Most of the evidence submitted by either party relative to capitalization rates consisted of third party reports. Colliers International reported downtown office capitalization rates in Calgary for Q2, 2010, at a low of 8.00 per cent, to a high of 9.00 per cent. CBRE reported a range of 9.00 to 9.50 per cent for downtown class B buildings in Q2, 2010. Other reports for class B buildings in Q2 2010, included Altus Insite at 7.30 per cent to 9.00 per cent.

### **Board's Decision**

In the opinion of the Board, the subject is an 'typical building that does fit readily into the City's mass appraisal model. The building is a converted switching station. Essentially, the structure started out as a nine storey warehouse. There is no on-site parking. Over half the building is classified as storage area. There is no main floor retail space, which one would typically find in a downtown office building.

#### **1)Office Rent**

The Complainant's request for \$10.00 per s.f. office rent is not supported by the evidence. Moreover, the \$10.00 office rate requested is equal to the storage rate currently being applied, and not contested by the Complainant. Logic dictates that finished office space and storage space in the same building are not equal. On the other hand, the \$14.00 per s.f rate being applied by the Respondent is the same rate being applied to all class B- buildings in the model. The subject, for all the reasons already outlined, is an inferior building that does not readily fit into the model. Of the evidence submitted, the board concludes that the most representative properties are the two comparables submitted by the Respondent. United Place has rents from \$12.00 to \$14.00 per s.f. Manulife House exhibits rents from \$10.00 to \$14.00 per s.f. The Board finds that \$12.00 per s.f, which is near the low end of the range indicated for class B buildings , is the most appropriate.

#### **2) Vacancy Allowance**

The vacancy allowance is set at 13.5 per cent. That rate is approximately equal to the Q2 2010 vacancy reported in the third party reports submitted. Currently, the subject's office space is fully occupied, and the storage is fully utilized by the occupant. However, should the existing tenant vacate, the storage space could remain totally vacant until the space is renovated for an alternate use. That situation could result in a total vacancy as high as 52.5 per cent. This Board has no way of predicting what a typical vacancy would be in those circumstances, but the Complainant's requested 13.5 per cent appears more reasonable than the Respondents

assessed 8.0 per cent rate.

### 3) Capitalization Rate

The third party reporting agencies constituted the only evidence submitted by either party. The bulk of that evidence leads to a conclusion of 9.00 per cent or lower.

In past MGB decisions, it has been stated that *"the onus of proving that an assessment is incorrect lies with the individual alleging it. The onus rests with the Complainant to provide convincing evidence to justify a change in the assessment."* While the foregoing speaks of assessments, the same principle applies to any individual components of an assessment.

It is the opinion of this Board that the Complainant did not meet the onus required to convince the Board that a change in the capitalization rate is justified.

By using the amended inputs as outlined, the assessment is recalculated and reduced to \$13,182,686.00. truncated to \$13,180,000.00.

DATED AT THE CITY OF CALGARY THIS 7 DAY OF OCTOBER, 2011.



Jerry Zezulka  
Presiding Officer

### APPENDIX "A"

#### **DOCUMENTS PRESENTED AT THE HEARING AND CONSIDERED BY THE BOARD:**

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1. C1 Complainant Submission of Evidence,
  2. C2 Complainant , Non-Residential Properties – Income Approach Valuation
  3. C3 Complainant 2011 Capitalization Rate – Rebuttal Submission
  4. R1 City of Calgary Assessment Brief

*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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|                            |             |              |                    |                               |
|----------------------------|-------------|--------------|--------------------|-------------------------------|
| Decision No. 1499/2011 - P |             |              | Roll No. 016202202 |                               |
| <u>Subject</u>             | <u>Type</u> | <u>Issue</u> | <u>Detail</u>      | <u>Issue</u>                  |
| CARB                       | 3. Office   | High Rise    | Income approach    | Lease Rates, vacancy, parking |