

**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:**

***Dundee Canada Ltd. Partnership, COMPLAINANT***

**and**

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

**before:**

***M. Vercillo, PRESIDING OFFICER***

***P. Charuk, MEMBER***

***J. Massey, 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: 902513381**

**LOCATION ADDRESS: 1601 AIRPORT RD NE**

**HEARING NUMBER: 61409**

**ASSESSMENT: \$25,920,000**

This complaint was heard on the 2<sup>nd</sup> day of November, 2011 at the office of the Assessment Review Board located at Floor Number 4, 1212 – 31 Avenue NE, Calgary, Alberta, Boardroom 9.

Appeared on behalf of the Complainant:

- *D. Porteous*
- *A. Farley*

Appeared on behalf of the Respondent:

- *K. Buckry*

**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 is a suburban office property located at the Calgary International Airport in NE Calgary. According to the information provided, the property, known as the "Airport Corporate Centre" (ACC) is an eight floor building that was constructed in 2000. It consists of maintenance, repair and operations (MRO) level, a small mezzanine area, three parking levels and the main entrance with foyer and lobby.

In July, 2007, Dundee REIT purchased a portion of the building for \$38,075,000. The purchase was for seven floors (2 thru 8) of office space of the building, excluding land. The subject sits on airport leased land, whose land rights can never be owned. The Calgary Airport Authority (CAA) retained ownership of the remaining areas of the building. In the July, 2007 purchase, the Dundee REIT assumed control of a 54 year lease term with the CAA (YYC547), which was signed in 1998 with the previous owner, GWL Realty Advisors Ltd. The total space purchased by Dundee REIT encompasses 148,363 square feet (sf). Alberta Health Services (AHS) occupies the entire third floor. AHS space totals 21,169 sf, and as an exempt tenant is assessed separately under a separate roll number.

The subject is considered an A class building by the Respondent and is assessed using the Income Approach to value. The subject's remaining 127,194 sf of space is assessed using a office rental rate of \$20.00 per square foot (psf), a 12.50% vacancy rate, operating costs of \$230,539, a 2.00% non-recoverables rate and a 7.5% capitalization rate (cap rate).

**Issues:**

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 issue:

- 1) The office rental rate applied to the Income Approach to value should be \$14.00 psf, being more reflective of current market conditions.

**Complainant's Requested Value:**

\$17,480,000 on the complaint form revised to \$17,400,000 at this hearing.

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

**ISSUE 1: The office rental rate applied to the Income Approach to value should be \$14.00 psf, being more reflective of current market conditions.**

**The Complainant** provided an 85 page document 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 rent roll of the subject with rental information as at December 1, 2010. The rent roll showed that 16 units, or 137,268 sf of rentable area, or 92.45% of the total rentable area was leased, while, 3 units or 11,210 sf of rentable area, or 7.55% of the total rentable area were vacant. The report also showed that total monthly or gross rent achieved on the leased area was \$206,780.59 per month.
- A chart of "new deal" and renewals of leases affecting the subject. The chart summarized the following:
  - 3 New Deals:
    - Commencement date of lease was August 1, 2010; lease rate was \$13.00 psf.
    - Commencement date of lease was May 1, 2010; lease rate was \$9.00 psf.
    - Commencement date of lease was January 1, 2010; lease rate was \$16.50 psf.
  - 3 Renewals:
    - Commencement date of lease was August 1, 2010; lease rate was \$13.00 psf.
    - Commencement date of lease was April 1, 2010; lease rate was \$19.00 psf.
    - Commencement date of lease was January 1, 2010; lease rate was \$14.00 psf.
- A chart and corresponding pictures of five rental comparable properties to the subject, four of which were in the NE quadrant, while one was in the SE quadrant of Calgary. Four of the comparables had surface parking while one had underground parking like the subject. The construction year of the comparables ranged from 1999 to 2008. The chart summarized the following lease information:
  - Commencement date of lease was July 1, 2010; lease rate was \$13.50 psf.
  - Commencement date of lease was August 1, 2009; lease rate was \$15.75 psf.
  - Commencement date of lease was February 1, 2010; lease rate was \$19.50 psf.
  - Commencement date of lease was November 1, 2010; lease rate was \$13.50 psf.
  - Commencement date of lease was June 1, 2010; lease rate was \$18.00 psf.During questioning, the Complainant revealed that likely the best comparable was the Opus II building at 2535 3 AV SE, a multi-story building like the subject with underground parking like the subject but built in 2008, newer than the subject.
- A chart and corresponding picture of another rental comparable, the old Westjet building at 5055 11 ST NE. The comparable had surface parking unlike the subject. The construction year of the comparable was 2000 like the subject. The chart summarized

the following lease information:

- o Commencement date of lease was January 1, 2011; average lease rate on the ten year lease was \$13.76 psf.
- Based on the subject's lease renewals and new deals and the various comparables used in his analysis, the Complainant estimated that a reasonable office rental rate used to assess the subject should be \$14.00 psf.

**The Respondent** provided a 60 page 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 transaction report with pictures from CBRE Richard Ellis summarizing the purchase of the subject property by Dundee REIT from GWL Realty Advisors Ltd. in July, 2007. The purchase was for \$38,075,000 or \$256 psf, which included 148,363 sf of space of a "fully leased Class "A" suburban office building constructed in 2000 and directly connected to the Calgary International Airport".
- A faxed copy of the rent roll of the subject dated May 13, 2010 from Dundee Realty Management Corp to the Assessment Business Unit of the City of Calgary. The rent roll detailed rental information of the subject as at April 1, 2010. The rent roll showed that 16 units, or 116,213 sf, or 80.05% was leased, while, 3 units or 27,439 sf, or 7.55% were vacant. The report also showed that an average base rent rate of \$18.27 was achieved on the leased area.
- A faxed copy of the rent roll of the subject dated May 24, 2011 from Dundee to the Assessment Business Unit of the City of Calgary. The rent roll detailed rental information of the subject as at May 1, 2011. The rent roll showed that 17 units, or 141,139 sf, or 95.06% was leased, while, 2 units or 7,339 sf, or 4.94% were vacant. The report also showed that total monthly or gross rent achieved on the leased area was \$208,672.93 per month. The fax also included an income statement report for the twelve month period ending December 31, 2010. The base rent achieved by the subject in that one year period was \$2,264,957, with a net operating income of \$1,863,708. The Respondent argued that since the cap rate and other parameters of the income approach to value were not in dispute the rental rate that would achieve that kind of net income would be \$19.25 psf.
- A chart summarizing the leases of the rent roll presented in the previous bullet detailing the leases as at May 1, 2011. The chart showed the following:
  - o Average lease rate: \$19.02 psf.
  - o Median lease rate: \$18.87 psf.
  - o Weighted Average lease rate: \$18.90 psf.
  - o Minimum lease rate: \$10.00 psf
  - o Maximum lease rate: \$28.00 psf.
  - o Vacancy rate: 0.82%
- A working copy of a Colliers International marketing brochure of the subject advertising three available premises for lease. The brochure details the subject as a "modern "A" class building, with shops and restaurants located within the airport terminal, an abundance of parking available, +20 connected and an on-site hotel" listed as its amenities.
- Two equity comparables. The Respondent detailed the assessment of the subject's exempt lease of Alberta Health Services assessed in exactly the same way as the subject using a \$20.00 office rental rate in the income approach to value. The Respondent also provided the assessment of the Calgary Airport Authority's 1<sup>st</sup> floor

space of 21,099 sf, again assessed in exactly the same way as the subject using a \$20.00 office rental rate in the income approach to value.

- An equity comparable in the Hopewell Business Park at 2618 Hopewell PL NE. The Respondent described the approximately 5 story building as comparable to the subject in terms of geographic location and construction. The 2011 assessment of the this comparable used a \$21.00 office rental rate, a 12% vacancy rate, a \$12.50 operating cost rate and a 2% non-recoverables rate in the income approach to value. Two leases within this comparable were offered by the Respondent with lease years of 2009 and 2010, showing office lease rates of \$22.00 psf each.
- A RealNet Transaction Summary of the 2007 sale of 2618 Hopewell Place NE (the comparable described in the previous bullet). The property sold for \$17,212,275 or \$224 psf.
- An equity comparable known as the new Westjet building. The Respondent described this property as an A+ building, superior to the subject. The 2011 assessment of this comparable used a \$24.00 office rental rate, with all other parameters the same as the subject in the income approach to value.
- A Tenant Roster as at June 30, 2011 of the Complainant's Opus II building comparable. The roster showed office rental rates ranging from \$19.00 psf to \$34.00 psf. Office rental rates with lease commencement dates in 2010 ranged from \$19.00 to \$21.00.
- A RealNet Transaction Summary of the 2010 sale of the Complainant's Opus II building comparable. The property sold for \$70,000,000 or \$316 psf. The 2010 assessment was \$46,600,000.

**The Complainant** also provided a 26 page rebuttal document that was entered as "Exhibit C2" during the hearing. The Complainant along with Exhibit C2 provided the following evidence with respect to this issue:

- A chart to support the comparability of the 5 comparables used in Exhibit C1. The Complainant showed that all of those comparables were suburban office building with Class rating from A- to A+. The subject is considered an A- building by the Complainant.
- A letter dated March 22, 2010 from Dundee Realty Management Corp and lease information in support of the lease commencement dates and rental rates of Tim-Br-Marts Ltd. tenant used by the Complainant in his analysis in Exhibit C1.

**The CARB** finds the following with respect to this issue:

- That the rent roll information provided by the Complainant, that showed the subject was achieving gross rents of \$206,780.59 per month or \$2,481,367 per year as at December 31, 2010, which equates to a lease rate of \$18.08 psf based on 37,268 sf of leased space. This does not support the requested office rental rate of \$14.00 psf.
- That the Opus II building used by the Complainant as most comparable to the subject had a lease commencement date of February 1, 2010 with a lease rate of \$19.50 psf. This does not support the requested office rental rate of \$14.00 psf.
- That the sale of the subject that occurred in 2007 for \$38,075,000 or \$256 psf when compared to the 2011 assessments of the subject's non-exempt portion \$25,926,379 plus the exempt (AHS) portion \$4,300,679 equates to a \$30,227,058 or \$203.74 psf. This does not indicate that a reduction to the assessment is warranted.
- That the rent roll information provided by the Respondent, that showed the subject was achieving base rental rates averaging \$18.27 psf as at April 1, 2010. This does not support the requested office rental rate of \$14.00 psf.
- That the rent roll information provided by the Respondent, that showed the subject was

achieving gross rents of \$208,672.93 per month or \$2,504,075 per year as at May 1, 2011, which equates to a lease of \$17.74 psf based on 141,139 sf of leased space. This does not support the requested office rental rate of \$14.00 psf.

- That the net operating income of the subject of \$1,863,708 as at December 31, 2010 when capitalized a rate of 7.5% (not in dispute) would compute a value of \$24,849,440 which does not support the requested assessment of \$17,400,000.
- That the Respondent's analysis of the subject's leases as at May 1, 2011 with office rental rates averaging close to \$19.00 psf does not support the Complainant's requested office rental rates of 14.00 psf.
- That the Colliers International marketing brochure indicates various attractive amenities found in the subject that are superior or not common to comparables supplied by both the Respondent and the Complainant.
- That the assessment equity comparables provided by the Respondent support that the assessment of the subject is fairly and equitably assessed.
- That the RealNet sales of both Hopewell Place at \$224 psf and the Opus II building at \$316 psf when compared to the subject's assessed \$203.74 psf does not indicate that a reduction to the assessment is warranted.
- That the Opus II tenant roster as supplied by the Respondent, with lease commencement dates in 2010 had corresponding office rental rates ranging from \$19.00 to \$21.00. This does not support the requested office rental rate of \$14.00 psf.

**Board's Decision:**

The complaint is denied and the assessment is confirmed at \$25,920,000.

The Complainant failed to substantiate their requested assessment through argument or evidence. Given the evidence presented by both parties, the CARB finds that the subject property is fairly and equitably assessed. The subject's rent roll information and net income in particular failed to establish that the assessment is in error. The Opus II building and Hopewell Place comparables failed to establish that the assessment is in error. The assessment equity comparables failed to establish that the subject is inequitably assessed.

DATED AT THE CITY OF CALGARY THIS 9 DAY OF November 2011.



**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. R1	Respondent Disclosure
3. C2	Complainant Rebuttal 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.*