

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:

Healthcare Properties Holdings Ltd. (as represented by MNP LLP), COMPLAINANT

and

The City Of Calgary, RESPONDENT

before:

B. Horrocks, PRESIDING OFFICER

J. Massey, BOARD MEMBER

R. Kodak, BOARD 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 2013 Assessment Roll as follows:

ROLL NUMBER:	111180204
LOCATION ADDRESS:	1016 68 AV SW
FILE NUMBER:	70767
ASSESSMENT:	\$8,270,000

Appeared on behalf of the Complainant:

- Appeared on behalf of the Respondent:

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

- Property Description:**

[6] The 2013 assessment was prepared using the Income Approach to Value, with a typical Southwest Medical/Dental office space rental rate of \$15.00 per square foot (psf). Vacancy allowance at the rate of 15% and non-recoverable expense allowance at the rate of 1%, were deducted. The resulting net operating income was capitalized at the rate of 6.75% to arrive at an estimate of market value, for assessment purposes.

[7] An "assessment amount" was identified on the Assessment Review Board Complaint Form as the matters that apply to the complaint. At the outset of the hearing, the Complainant advised that there were two outstanding issues, namely: "the current assessment does not reflect the physical condition of the unfinished space in the subject as of the relevant assessment dates and "the vacancy rate should be no less than 20 to 25%."

Complainant's Requested Value: \$6,610,000 (Complaint Form)
\$7,410,000 (Hearing)

Board's Decision:

[8] The 2013 assessment is reduced to \$7,410,000.

Legislative Authority, Requirements and Considerations:

The Composite Assessment Review Board (CARB) derives its authority from the Municipal Government Act (MGA) RSA 2000, Section 460.1:

- (2) Subject to section 460(11), a composite assessment review board has jurisdiction to hear complaints about any matter referred to in section 460(5) that is shown on an assessment notice for property other than property described in subsection(1)(a).

MGA requires that:

- 293(1) In preparing an assessment, the assessor must, in a fair and equitable manner,
 - (a) apply the valuation and other standards set out in the regulations, and
 - (b) follow the procedures set out in the regulations.

Matters Relating to Assessment and Taxation Regulation (MRAT) requires that:

- 2 An assessment of property based on market value
 - (a) must be prepared using mass appraisal,
 - (b) must be an estimate of the value of the fee simple estate in the property, and
 - (c) must reflect typical market conditions for properties similar to that property.
- 4(1) The valuation standard for a parcel of land is
 - (a) market value, or
 - (b) if the parcel is used for farming operations, agricultural use value.

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

Issue: What is the market net rental rate of the 11,598 sf of unfinished shell space, to be applied in the Income Approach to value, for assessment purposes?

Complainant's Position:

[9] The Complainant's Disclosure is labelled C-1.

[10] The Complainant, at page 28, provided the Rent Roll for the subject property noting that, 10,277 sf on the main floor and 1,321 sf on the second floor, shown as being leased by Northwest Operating Trust, are vacant shell space. The Complainant submitted that the value of tenant improvements should be deducted from the market net rent, to determine a market value of the shell space, for assessment purposes.

[11] The Complainant, at page 34, provided copies of building permits to demonstrate that the weighted average of tenant improvement costs in the building was \$62.64 psf to date. Further, if the weighted average was rounded to \$60.00 psf and amortized over the average lease period of ten years, the annual cost of tenant improvements would be \$6.00 psf. The Complainant submitted that if the value of the tenant improvements (\$6.00 psf) is deducted from the market net rental rate (\$15.00 psf), the market net rental rate for the shell space is \$9.00 psf, for assessment purposes.

Respondent's Position:

[12] The Respondent's Disclosure is labelled R-1.

[13] The Respondent submitted that the City remits the value of tenant improvements to the business owner on an annual basis, at the rate of \$2.00 psf, through the Business Tax process.

Complainant's Rebuttal Position:

[14] The Complainant's Rebuttal Disclosure is labelled C-2.

[15] The Complainant at page 139, provided a document titled, NON-COMPETITION AND NON-SOLICITATION AGREEMENT, to demonstrate that Northwest Operating Trust and Northwest Healthcare Properties Real Estate Investment Trust are linked and further that Northwest Operating Trust are obliged to hold and lease vacant spaces above market rent until they are leased by the market.

Board's Reasons for Decision:

[16] The Board finds that shell space has value albeit somewhat less than completed space. Deducting the cost of tenant improvements from the market net rental rate to determine the value, is a reasonable approach.

[17] The market net rental rate of the 11,598 sf of unfinished shell space, to be applied in the Income Approach to value, is \$9.00 psf.

Issue: What is the vacancy allowance to be applied in the Income Approach to value, for assessment purposes?

Complainant's Position:

[18] The Complainant, at page 38, provided a table titled, Vacancy in the Subject Property, noting that the vacancy rate has been at least 26.53 % since 2009.

[19] The Complainant, at page 38, provided a table titled, Medical/Dental Vacancy Rate, noting the vacancy rate for the subject is 26.53% and the average vacancy rate for all of the Medical/Dental spaces in the South is 19.69% which supports its request for a vacancy rate of 20% to be applied in the Income Approach to value.

[20] The Complainant, at page 46, submitted that if the market net rental rate for the shell space was applied at \$9.00 psf and the vacancy allowance was applied at 15% in the Income Approach to value, and all the other parameters were unchanged, the market value for assessment purposes would be \$7,410,000.

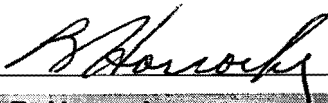
Respondent's Position:

[21] The Respondent, at page 24, provided a table titled, South CS0401 (Medical/Dental Office), noting the average vacancy rate for all South Medical/Dental properties is 16.83% and the vacancy reported for the subject, on the Assessment Request for Information (ARFI), was 5.00%. The Respondent noted the vacancy allowance provided in the assessment was 15%.

Board's Reasons For Decision:

[22] The Board finds the 15% Vacancy allowance provided in the assessment, is fair and equitable with all other Medical/Dental office properties in the South.

DATED AT THE CITY OF CALGARY THIS 21 DAY OF October 2013.



B. Horrocks

Presiding Officer

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

NO.	ITEM
1. C1	Complainant Disclosure
2. R1	Respondent Disclosure
3. C2	Complainant Rebuttal

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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Property Type	Property Sub-Type	Issue	Sub-Issue
Office	Low Rise	Income Approach	Tenant Improvements & Vacancy