

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:

CONCERT REAL ESTATE CORPORATION
(as represented by Altus Group.)
COMPLAINANT

and

The City Of Calgary, RESPONDENT

before:

W. Krynski, PRESIDING OFFICER
E. Reuther, BOARD MEMBER
J. Lam, 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:	056012693
LOCATION ADDRESS:	1010 1 Avenue NE
FILE NUMBER:	71680
ASSESSMENT:	\$6,140,000

This complaint was heard on 22nd day of July, 2013 at the office of the Assessment Review Board located at Floor Number 4, 1212 – 31 Avenue NE, Calgary, Alberta, Boardroom 4.

Appeared on behalf of the Complainant:

- *D. Chabot*
- *B. Neeson*

Appeared on behalf of the Respondent:

- *C. Neal*
- *C. MacMillan*

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

- [1] The parties had no objections to the panel representing the Board as constituted to hear the matter. No jurisdictional or procedural matters were raised at the outset of the Hearing, and the Board proceeded to hear the merits of the complaint.

Property Description:

- [2] The subject property, known as Bridgeland Professional Centre, comprises a 3 storey "B" quality office building, located at 1010 1 Avenue NE. It is situated in the inner-city district known as Bridgeland, within close proximity to the City's downtown core. The building has an assessed area of 29,151 square feet (sf), of which 3,196 sf is main floor retail space, and includes a combination of 37 enclosed and surface parking stalls. The year of construction is 1981. The building is situated on a 14,470 sf parcel of land which is zoned Commercial-Cor1. Prior to the demolition of the hospital in the immediate area, the building was a medical centre. Current tenancy within the building is approximately 50% medical related.

Issues:

Issue # 1:

- [3] The Capitalization Rate (cap. rate) being applied in the Income Approach is incorrect, thereby resulting in an erroneous assessment.

Issue # 2:

- [4] The City has over assessed the parking component for the subject property.

Complainant's Requested Value: \$ 4,940,000

Board's Decision

- [5] The Board confirms the assessment at \$6,140,000

Legislative Authority, Requirements and Consideration

- [6] The Calgary Composite Assessment Review Board takes authority from the Municipal Government Act and associated Government of Alberta Legislation and Regulations.

Position of the Parties**Issue # 1: The Capitalization Rate being applied in the Income Approach is incorrect.****Complainant's Position:**

- [7] Respecting the capitalization rate issue, both Complainant and Respondent have requested that all evidence and argument presented at this Hearing, be cross-referenced to this Board's scheduled Complaints as follows: File Numbers 72267; 71672; 71674; 71680; 72248; 72867; 73019; 73026; 73040; 73041; 73071; 73297.
- [8] The Complainant is requesting that the B and C quality suburban office capitalization rate be changed from 6.75% to 7.75%, in order to more accurately reflect the higher risk component inherent in older B and C Class office buildings. Specifically, office buildings constructed in 1982 and earlier.
- [9] In addition to third party and land title sales documents, various maps, aerials and photographs were provided, to offer a visualization of the location, and building characteristics of the subject and sale properties.
- [10] As supporting market evidence, the Complainant provided a capitalization rate analysis: [Pg. 4, C-2]

2013 Suburban B Office Building Cap. Rate Study

Sale #	Address	Qual.	AYOC	Sale Date	Sale Price	Area sf	N.O.I	C/R	SP/sf
1	4110 79 St. NW	B-	1980	10/21/2011	\$1,400,000	10,516	\$133,278	9.52%	\$133.13
2	625 14 St. NW	C	1969	11/15/2011	\$2,160,000	17,348	\$145,038	6.71%	\$124.51
3	2805 12 St. NE	B-	1981	10/18/2010	\$2,700,000	18,647	\$214,650	7.95%	\$144.80
4	7175 12 St. SE	B	1982	1/21/2011	\$5,600,000	36,895	\$437,360	7.81%	\$151.78
5	Fisher Park	B	1969-75	2/25/2011	\$46,000,000	245,932	\$3,077,400	6.69%	\$187.04
							Min.	6.69%	\$124.51
							Max.	9.52%	\$187.04
							Median	7.81%	\$144.80
							Average	7.74%	\$148.25

- [11] It was noted that sales 1 & 2 were also included in the Respondent's evidence. Sales 3 to 5, are more dated, as far back as 20 months from the July 1, 2012 valuation date. Notwithstanding the expanded sale analysis time frame, the Complainant is of the opinion that the corresponding capitalization rates are representative of those relative to the more current sales, and the July 1, 2012 valuation date.
- [12] The Complainant submitted as evidence, summary charts of the City capitalization rate study for the suburban office A quality group, as well as the B & C quality group (C2). It was noted that two of the City sales, (11500 29 St. SE and 3402 8 St. SE) each indicated cap rates of 5.30%. As such, it was suggested that they were more representative of the A quality group of sales, showing median and average cap rates of 5.85% and 5.63% respectively. This is in contrast to the B quality group, in which they were placed, showing median and average cap rates of 6.01% and 6.71%. Furthermore, it was argued that their 2000 and 2003 years of construction were more reflective of the A quality than the B quality group. For these reasons, the Complainant did not include these two sales in their cap rate analysis of suburban B quality offices, and in their opinion, neither should the City.
- [13] Net operating incomes (NOI) as presented in the Altus analysis were indicated to be representative of assessed sale year NOI's, based on City information.
- [14] The Complainant provided a "Typical year of Construction for B Suburban Office" chart, [Pgs. 60-62, C2] including a sample of 102 buildings, of which 8.8% were constructed in 1998 or newer. The point being that two of the sales used in the City analysis, being newer constructed buildings, were not representative of the overall B quality group, and were therefore, in the Complainant's opinion, appropriately excluded from the Altus analysis.
- [15] Additionally, the Complainant references a number of Municipal Government Board (MGB) and Composite Assessment Review Board (CARB) decisions. The common theme referenced in these decisions was the Board's inclination towards an extended sales analysis interval, when current sales data is limited. This is in response to the City policy of limiting sales in their cap rate analyses to only those occurring in the twelve month period prior to the valuation date.
- [16] The Complainant argued that the City's assessment to sales ratio study (ASR) is inaccurate, as no time adjustments were made in the analysis. Altus also provided an ASR study in their rebuttal documents. The Altus study did not include time adjustments.
- [17] The Complainant argues that the City sale at 3402 8 St. SE should be discarded as it is their opinion that the sale is non arms-length. The reasons being that the property was sold to existing tenants, and was not officially listed with a broker prior to the sale.
- [18] Finally, the Complainant references a number of Municipal Government Board Orders, in support of their position and arguments.

Respondent's Position:

- [19] In addition to third party and Land Title sales documents, various maps, aerials and photographs were provided, to offer a visualization of the location, and building characteristics of the subject and sale properties.
- [20] In support of the assessment, the Respondent submitted a "2013 Suburban Office Capitalization Rate Summary". The summary reflected an analysis of both A quality as

well as B & C quality office groups [Pg. 98, R1]. The portion reflecting the B & C quality offices is replicated below .

2013 Office Capitalization Rate Summary

Sale #	Address	Qual.	AYOC	Sale Date	Sale Price	Area ^{sf}	N.O.I	C/R
1	11500 29 St. SE	B+	2000	08/23/2011	\$3,300,000	16,135	\$174,910	5.30%
2	3402 8 St. SE	B+	2003	03/08/2012	\$2,174,500	9,908	\$115,331	5.30%
3	4110 79 St. NW	B-	1980	10/21/2011	\$1,400,000	10,516	\$133,278	9.52%
4	625 14 St. NW	C	1969	11/15/2011	\$2,160,000	17,348	\$145,038	6.71%
							Median	6.01%
							Average	6.71%

- [21] The Respondent submits that all City sales are current, per the City policy of using only current data in the capitalization rate analyses. In this instance, that would be twelve months prior to the July 1, 2012 valuation date. The Respondent argues that by using dated sales (ie: 2010), Altus is distorting the overall average, and not capturing market value as of the valuation date. Additionally, the City responds, *"Time is an important factor, and Altus has decided to exclude the only 2012 sale of a B quality office."*
- [22] In response to the two City sales rejected by the Complainant as being more reflective of "A" quality then the applied "B" quality group, the City referenced a list of physical and economic criteria that are considered in determining a property's quality classification. Further, the City maintains that, contrary to the Altus argument, age alone is not the overall determinant of quality classification. Actual year of construction may not reflect renovations and improvements made to a property over time.
- [23] The Respondent provided ASR summaries respecting both City sales and Altus sales, comparing resultant values utilizing the assessed 6.75% cap rate and the Altus requested 7.5% cap rate. City sales with a 6.75% cap rate indicated median and average ASR's of 1.00 and 1.04 respectively. City sales with a 7.75% cap rate reflected median and average ASR's of 0.87 and 0.91 [Pg. 72, R1]. Altus sales with a 6.75% cap rate provided median and average ASR's of 1.01 and 1.04, while the same with a 7.75% cap rate indicated 0.88 and 0.90 ASR's [Pg. 73, R1]. This, in the Respondent's opinion, speaks to the accuracy of the subject assessed cap rate. Upon questioning, the Respondent confirmed that time adjustments were not applied in the analysis.
- [24] In addition to the four sales referenced in the City's cap rate analysis of B and C quality group offices, two post-facto (to July 1, 2012) B class office sales were provided. The sales were not utilized in the valuation process, and are submitted for the purpose of value trending, and to provide support to the applied cap rate and overall assessed value of the subject [Pgs. 279-285, R1].

- [25] In support of the assessed capitalization rates, the Respondent provided third party Real Estate Industry reports produced by Colliers, CBRE, and the Calgary Herald, relative to the second quarter of 2012.
- [26] Finally, The Respondent referenced a number of MGB and CARB decisions, in support of their position.

Issue #2: The City has over assessed the parking component for the subject property.

Complainant's Position:

- [27] The Complainant submits that the subject parking assessment at a rate of \$1,920 per annum (\$160.00 per month) per stall is excessive and not representative of typical market rents for the property. In the Complainant's opinion, the appropriate assessed annual parking rate should be \$960.00 (\$80.00 per month).
- [28] In support of the requested value, the Complainant submitted two parking stall rent roll summaries from the subject property. The summaries were effective as of Feb. 2012 for one, and June 2013 for the other. Both indicated rents of \$100.00 to \$125.00 per month, for 35 stalls, [Pgs.27-33,C-1].
- [29] Additionally, the Complainant provided three separate parking rate analyses (pgs 40-43, C1): The first indicating parking rates from a sample of 14 suburban offices in the Northwest Core district. This includes the subject neighbourhood, as well as other inner City neighbourhoods, such as Kensington, 16 Avenue, Centre Street, etc. The data indicated mean and median annual rates of \$1,929 and \$1,980/stall, with corresponding assessed rates of \$1,920/stall, [Pg.40,C-1].
- [30] The second analysis shows parking rates from a sample of 16 suburban offices in the North district, excluding the core. This includes properties in the northwest and northeast sectors of the City. The data indicated mean and median annual rates of \$1,112 and \$1,110/stall, with corresponding assessed rates of \$960/stall, [Pg.41,C-1].
- [31] The third analysis shows parking rates from a sample of 32 suburban offices in the South district. This includes properties in the southwest and southeast sectors of the City. The data indicated mean and median annual rates of \$1,427 and \$1,500/stall, with corresponding assessed rates of \$1080/stall, [Pgs.42-43,C-1].
- [32] Finally, the Complainant referenced a 2011 CARB decision, wherein the subject parking rate was reduced to \$1,080 and argues that nothing has changed since then.

Respondent's Position:

- [33] The Respondent maintains that, given the location of the property and its proximity to the downtown core, the subject neighbourhood is appropriately included in the Northwest Core group, with the assessed annual rate of \$1,920 applied accordingly.
- [34] In the opinion of the Respondent, the analyses provided by the Complainant respecting north and south suburban offices does not capture the subject's proximity to the downtown core.
- [35] The Respondent provided their Suburban Office Northwest Core Parking Rate Analysis, indicating mean and median annual rates of \$1,929 and \$1,980 per stall (pg. 24, R1).

The City questions the reasonableness of the subject parking income of \$100 per month, when a comparable property, also on 1 Ave NE, only three blocks west of the subject, is achieving \$240 per month. Furthermore, all of the City parking comparables are in downtown fringe locations, similar to the subject.

- [36] The subject rents were not included in the City analyses, because the property owner did not return assessment requests for information, as requested by the City, for the previous two years.

Board's Reasons for Decision:

Issue # 1: The Capitalization Rate being applied in the Income Approach is incorrect.

- [37] There was insufficient market evidence from the Complainant to convince the Board that a variance to the capitalization rate is justified.
- [38] The Altus argument is based largely on whether or not two of the sales used in the City's B Office cap rate analysis should be classified as A quality rather than B quality office buildings. Altus argues the buildings' newer construction status as the sole identifiable reason for the class change. This, the Complainant argues, is manifested in the 5.30% capitalization rate reflected in the sales. When included in the B quality group, the 5.30% cap rates displayed by the two sales could be considered outliers, as compared to the group's median and average cap rates of 6.01% and 6.71%. However, as A class offices, they fit more favourably with that group's median and average cap rates of 5.85% and 5.63%.
- [39] The Board is of the opinion that the City correctly classed the referenced properties as B quality offices. As such, they are correctly included in the City analyses. Upon reviewing the evidence, the Board considers the buildings to be physically and economically compatible with the B class group, notwithstanding their newer construction status. They are of a typical B class construction quality, and documents show that they are displaying rental rates and operating costs consistent with the B quality offices. Furthermore, they are classified in an independent Industry report, (Altus Insite), as being B class offices (pg. 62, R1).
- [40] The Board does not necessarily disagree with the Complainant's methodology of extending the analysis period when necessary, to increase data sample size. However, when doing so, one must be cognizant of sales dating as far back as 20 months, when reconciling the data analysis results. Given the more current nature of the Respondent's sales, the Board finds the Respondent capitalization rate analysis to be more indicative of the B class property group as at July 1, 2012, than that of the Complainant.
- [41] The Colliers, CBRE, and Calgary Herald Market Reports submitted by the Respondent, were reviewed by the Board, and found to be generally supportive of the capitalization rates applied by the City to B and C class offices.
- [42] Information coming forward in the course of the hearing identified the subject building as having been historically classed as an office-medical facility. In fact, the property still maintains its original moniker of "Bridgeland Professional Centre". Such buildings typically command higher rents, due to their unique and costlier interior finish requirements. For the current assessment, the City has adjusted the classification to that of suburban office, to reflect the decreased percentage of medical related tenants, which is currently 49%. This has resulted in a lower assessment, notwithstanding the

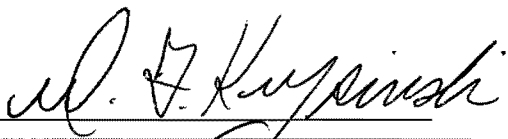
fact that the property owner still promotes the building as a medical professional centre.

- [43] The Board is of the opinion that, the subject property, in its current location and use, being located in proximity to the downtown core, on commercially zoned land, is somewhat unique as compared to most offices represented in the cap rate studies of both parties. Those comparables are for the most part, on industrially zoned land, in industrial neighbourhoods.
- [44] The Board reviewed the assessment to sale ratio evidence provided by both parties however the Board was hesitant to place considerable weight on this evidence, as neither party incorporated time adjustments in their analyses. As the Respondent sales were reasonably current, being a maximum 12 months from the July 1, 2012 valuation date, the lack of time adjustment was less relevant than for the Complainant's sales, being as much as 20 months distant.
- [45] The Board reviewed the multiple CARB and MGB Board orders submitted by both parties. It is this Board's position that, while prior Decisions are considered, the Board is not bound by previous Orders. Ultimately, the Board forms its decision based on evidence and argument as presented, relative to the Hearing.
- [46] On review and consideration of all the evidence before it on this issue, the Board found the Complainant's evidence was not sufficient to warrant a variance in the capitalization rate.

Issue #2: The City has over assessed the parking component for the subject property.

- [47] The Board was not convinced by the Complainant's evidence respecting parking rates assessed to the subject. Notwithstanding that Bridgeland is an older community undergoing a transformation, the community revitalization is underway led by the continued re-development of the former hospital site. The applied parking rate is consistent with the City analysis of other downtown fringe communities.
- [48] The City analysis indicates parking rates in central neighbourhoods as high as \$260/month. The comparable at 736 1 Ave. NE is only 3 blocks away from the Subject, and commands rents of \$240 per month, per stall.
- [49] On review and consideration of all the evidence before it in this matter, the Board found the Complainant's evidence was not sufficient to warrant a variance in the assessed parking rate.

DATED AT THE CITY OF CALGARY THIS 20th DAY OF August 2013.



W.F. Krynski

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 Appendix A
4. C3	Complainant Appendix A continued
4. C4	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.*

FOR ADMINISTRATIVE USE

Subject	Property Type	Property Sub-Type	Issue	Sub-Issue
CARB	Suburban Office	B Class	1. Capitalization Rate 2. Parking Rate	