



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:

Canadian Leaseback (GP) Inc.
(as represented by Altus Group Limited), COMPLAINANT

and

The City Of Calgary, RESPONDENT

before:

C. J. Griffin, PRESIDING OFFICER
B. Bickford, BOARD MEMBER
A. Zindler, BOARD MEMBER

This is a complaint to the Composite Assessment Review Board (CARB) 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(S):	068232404
LOCATION ADDRESS:	220 – 4th Avenue SE
FILE NUMBER:	72069
ASSESSMENT:	\$181,020,000.

This complaint was heard on the 5th day of November, 2013 at the office of the Assessment Review Board located at Floor Number 4, 1212 – 31 Avenue NE, Calgary, Alberta, in Boardroom 2.

Appeared on behalf of the Complainant:

- M. Cameron

Appeared on behalf of the Respondent:

- K. Gardiner

Board's Decision in Respect of Procedural Matters:

The Complainant explained to the Board that one of the issues to be argued in this Hearing, the assessed capitalization rate, is identical to that argued in Hearing #72629 and requested, for expediency, that all of the evidence and argument related to same be carried forward from the aforementioned Hearing and applied to this Hearing rather than repeating it all. The Respondent agreed with this suggestion. Accordingly the CARB will carry forward all of that evidence and argument related to the capitalization rate issue and will apply it to this Hearing.

Property Description:

[1] According to the Property Assessment Detail Report (Exhibit C-1A pg. 18), the subject property is an 'B' quality classified high-rise office building containing a total assessed office area of approximately 452,970 Sq. Ft. as well as 302 underground parking stalls. The building, which was constructed in 1976, is a modern structure located in the Downtown Core area of Calgary.

Issue(s):

[2] While the Complainant's Assessment Review Board Complaint form indicates several issues to be resolved, at the Hearing the Complainant reduced the issues to two matters, those being:

A) The assessed capitalization rate, at 5%, is too low and it should be raised to either 5.25% or alternatively 6.00% to better represent Market Value.

B) The assessed office rental rate of \$19/Sq. Ft. is too high and it should be reduced to either \$14/Sq. Ft. or alternatively \$15/Sq. Ft. to better represent Market Value.

Current Assessment(s):

[3] \$ 181,020,000.

Complainant's Requested Value:

[4] \$ 132,330,000. (Exhibit C-1 pg. 38) or \$122,800,000 (Exhibit C-1 pg. 39)

Board's Decision:

[5] The assessment is **reduced** to: **\$155,780,000.**

Position of the Parties**Complainant's Position:**

[6] The Complainant provided (Exhibit C-1B pgs. 91 - 101) copies of independent third party capitalization rate reports from 2008 through 2012 indicating the capitalization rates for 'B' class office buildings located in Calgary and other major urban centres in Canada. For the year 2012 these reports indicate the capitalization rate for 'B' class office buildings located in downtown Calgary to range from 6.25% to 7.00%. The Complainant also introduced (Exhibit C-1B pg. 103) a copy of their capitalization rate study for 'B' class downtown office buildings. The Complainant's capitalization rate study involves five 'B' class downtown office properties, three of which were sold in 2012 and two of which were reported sold in 2011. This study incorporates a summary of the capitalization rate analysis as prepared by the Respondent, an analysis as prepared by the Complainant as well as an analysis prepared by the Complainant using the requested office rental rates. The Respondent's analysis indicates capitalization rates ranging from a low of 3.84% to a high of 5.39% with an indicated mean of 4.77% and a median of 4.83%. The Complainant's analysis, applying the same typical in-puts utilized by the Respondent, indicates capitalization rates ranging from a low of 4.80% to a high of 6.60% with a mean of 5.60% and a median of 5.39%. The Complainant explained the difference between these two analyses of the same building sales stems from the net operating incomes utilized by each party. While there is no disagreement in the net operating incomes utilized for the 2012 sales, there is for the 2011 sales. The Complainant contends that the Respondent's analysis of the 2011 sales utilizes typical in-puts from 2012 whereas they should have utilized the assessment in-puts from the year 2011.

[7] The Complainant derives their requested 6.00% capitalization by adding a 0.50 "equity adjustment" to the 5.39% median they derived from their capitalization rate analysis. To explain their "equity adjustment", the Complainant provides (Exhibit C-1B pg. 105) a copy of the City of Calgary Assessment prepared *2013 Downtown Office Capitalization Rate Summary* which provides a synopsis of 16 downtown located office 'A', 'B' and 'C' class buildings sold in 2011 or 2012. The Complainant points to the 2012 'A' class median of 5.63% and, based upon the fact that the assessed capitalization rate is 6% for 'A' class buildings, maintains that this indicates the Assessor has rounded the results upward by 0.50%. Accordingly the Complainant maintains to retain equity it would be appropriate to also round the results of the capitalization analyses for the other classes upward by this same 0.50%.

[8] In terms of the second issue, the assessed office rental rate, the Complainant argued that the location of the subject, in DT3 (Chinatown) is such that the assessed office rental rate would be more appropriate if the 'B-' parameters were applied, hence the request for \$14/Sq. Ft. The Complainant provided (Exhibit C-1B pgs. 78 - 80) a synopsis of 40 'B-' 2011/12 dated leases from the DT2 area stating that there is insufficient data to provide same for DT3. This synopsis indicates a mean lease rate of \$14.24/Sq. Ft. and a median lease rate of \$14.75/Sq. Ft. which, the Complainant maintains, supports their request for \$14/Sq. Ft.

Respondent's Position:

[9] The Respondent referred to their *2013 Downtown Office Capitalization Rate Summary* (Exhibit R-1 pg. 165), noting that it is indeed the same as that referenced by the Complainant, and pointed out to the CARB that the median and mean for the 'A' class buildings was 5.83% and 5.88% respectively and it was these numbers that were rounded up to 6%, considerably less than the 0.50% rounding the Complainant claimed. Further, the same situation applies to the 'B' class buildings which were rounded up to 5% from 4.82%. Accordingly, the Respondent argues there is no support for the Complainant's 0.50% upward rounding of the capitalization rate and the study is supportive of the assessed capitalization rates. The Respondent also explained to the CARB that the 2011 sales were analyzed using the 2012 typical inputs as opposed to the 2011 inputs due to the fact that the sales were recorded after the July 1/11 assessment valuation date and would therefore not be considered for 2011 assessment year.

[10] In terms of the assessed office rental rate, the Respondent referred the Board to their *2013 Downtown Office Rental Rate Analysis* (Exhibit R-1 pgs. 49 & 50), noting that it is the same as that referred to by the Complainant except that it includes the 3 leases that were excluded by the Complainant. The Respondent explained that to derive an appropriate lease rate they had concentrated on the 2012 leases (shaded in grey) as being the most representative data in a rapidly changing market. The Respondent acknowledged that they had included the two ERCB leases and that same represented a significant portion of the space leased in 2012 and for that reason the Respondent had relied upon the weighted average as this takes the areas leased into consideration. The Respondent further explained that they had incorporated the Panartic Plaza lease, dated July 1/12, as they determined there was no valid reason to exclude same from their analysis. Based upon all of the foregoing the Respondent requested that the CARB confirm the assessment.

Board's Decision Reasons:

[11] Referring to the *2013 Downtown Office Capitalization Rate Analysis*, which was common to the evidence of both parties, the CARB put little weight on the two 2011 sales as same were found to have been a part of a major portfolio purchase involving 29 office properties located in several different cities across Canada. The CARB also noted that both reporting data sources indicated the purchases were reportedly based upon a 7% capitalization rate but there is no explanation as to how that capitalization rate was established and neither the analysis of the Complainant or the Respondent resulted in a 7% capitalization rate. The Board acknowledges that the remaining three sales were also a part of a portfolio purchase; however, this portfolio only involves Calgary located office properties and all three are 'B' class downtown properties. The indicated median capitalization rate, based upon the analyses of both parties, is 5.02% which is fully supportive of the assessed 5% rate and the CARB is not convinced that a change is required.

[12] In terms of the assessed office rental rate, the CARB finds that the inclusion the two ERCB leases skews the results as these two leases represent approximately 56% of the 2012 leased space. The CARB further notes that the median of all the leases incorporated into the *2013 Downtown Office Rental Rate Analysis* is \$16/Sq. Ft., the median of the 2011 leases is \$16/Sq. Ft. and the median of the 2012 leases is also \$16/Sq. Ft. Additionally, the CARB notes that Quality Standards (MRAT 10) are based upon **Median** Assessment Ratio (emphasis added). Accordingly the CARB is convinced that the appropriate office rental rate for the subject assessment should be \$16/Sq. Ft. which results in the assessed value being reduced.

[13] The CARB found no evidence to support the Complainant's contention that the subject property would be better assessed as a 'B-' quality and utilizing the typical in-puts for that classification. The Board certainly does not agree that the single tenant, being the Government of Canada, is detrimental to the property in terms of its potential sale as the CARB is of the judgment that having such a covenant would be a positive factor.

DATED AT THE CITY OF CALGARY THIS 3rd DAY OF December 2013.


C. J. Griffin,
Presiding Officer

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

NO.	ITEM
1. C1A	Complainant Disclosure part 1
2. C1B	Complainant Disclosure part 2
3. C1C	Complainant Disclosure part 3
4. 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.*

For MGB Administrative Use Only

Municipality: Calgary	Decision No. 72069/P-2013	Roll No:	068232404
<u>Property Type</u>	<u>Property Sub-Type</u>	<u>Issue</u>	<u>Sub-Issue</u>
Office	Downtown 'B' Office	M.V.	Capitalization Rate Office Rental Rate