



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:

Sloane Square Properties Ltd.
(as represented by Altus Group Limited), COMPLAINANT

and

The City Of Calgary, RESPONDENT

before:

C. J. Griffin, PRESIDING OFFICER
J. Mathias, BOARD MEMBER
J. Lam, 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):	101014603
LOCATION ADDRESS:	5920 – 1A Street SW
FILE NUMBER:	72966
ASSESSMENT:	\$12,690,000.

This complaint was heard on the 30th day of September, 2013 at the office of the Assessment Review Board located at Floor Number 4, 1212 – 31 Avenue NE, Calgary, Alberta, in Boardroom 4.

Appeared on behalf of the Complainant:

- D. Chabot

Appeared on behalf of the Respondent:

- M. Ryan

Board's Decision in Respect of Preliminary and/or Procedural Matters:

The Complainant suggested to the CARB that four additional complaints, also to be heard this same week by this same Board and with the same Complainant and Respondent, have the same issues and the same evidence and arguments will be put forth as those in this Hearing. As a matter of expedience the Complainant requests that the evidence and argument presented for this Hearing be carried forward to also apply to those four complaints. The Respondent agreed with this suggestion. Accordingly the CARB will carry forward all of the evidence and argument for this complaint and apply same, as appropriate, to the following complaint numbers: 72265, 72612, 72757 and 72969.

Property Description:

[1] According to the Property Assessment Detail Report (Exhibit C-1 pg. 20), the subject property is a 'B' Classified low-rise suburban office building containing a total assessed office area of 72,712 Sq. Ft. The building, which was constructed in 1978, is a modern, single storey structure located in the Manchester Industrial area of southeast Calgary.

Issue(s):

[2] The Complainant introduced two issues (Exhibit C-1 pg. 7) for the CARB's consideration and they are:

- A) The assessed office rental rate at \$16/Sq. Ft. is too high and a reduction to \$14.50/Sq. Ft. is requested, and
- B) The assessed capitalization rate at 6.75% is too low and it should be raised to 7.25% to better reflect market value.

Current Assessment(s):

[3] \$ 12,690,000.

Complainant's Requested Value:

[4] \$ 10,630,000.

Board's Decision:

[5] The assessment is **confirmed** at:

\$ 12,690,000.

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

[6] In support of their contention that the assessed office rental rate is too high (Issue A), the Complainant introduced (Exhibit C-1 pg. 31) their *2013 Manchester Office Rental Analysis: B Quality* which provides a synopsis of twenty (20) leases signed between July 1/11 and July 1/12, five (5) of which were in the subject property. The leased areas range from 1,479 Sq. Ft. to 10,352 Sq. Ft. and the indicated rental rates range from \$10.50/Sq. Ft. to \$19.50/Sq. Ft. The indicated Median is \$14.75/Sq. Ft., the Mean is \$14.52/Sq. Ft. and the Weighted Mean is \$14.16/Sq. Ft. The five (5) leases signed in the subject property range from a low of \$14/Sq. Ft. to a high of \$15.56/Sq. Ft. The Complainant is of the opinion that these leases, all being from the Manchester Industrial area, are more representative of appropriate rental rates for the subject property than the more widely based rental rate analysis utilized by the Assessor which includes a much larger area simply referred to as the southeast. In support of their more limited, geographically, area of analysis the Complainant provided (Exhibit C-1 pgs. 55 – 56) examples of areas in the city where the Assessor segregates their typical rates by more defined locations. These examples include rental rates in the downtown core area as well as base land rates in both the downtown and Beltline areas of the city. Accordingly the Complainant suggests the southeast area should be refined into more defined geographic areas; hence, their Manchester only based rental analysis. The foregoing forms the basis for the Complainant's requested reduction in the assessed office rental rate.

[7] In support of their contention that the assessed capitalization rate is too low (Issue B), the Complainant provided (Exhibit C-2 pg. 4) their *2013 Suburban B Office Building CAP Rate Study* which summarizes four sales recorded between October 18, 2010 and November 15, 2011. Two of the properties are classified as being in the 'B-' category, one is a 'B' category and one is in the 'C' category. The 'B' category sale is a portfolio sale involving 4 buildings located in the Fisher Park light industrial district of southeast Calgary. The Complainant indicated that the aforementioned Capitalization (Cap) Rate Study utilizes all of the same in-puts as those employed by the Assessor and the Complainant has no argument with any of same. This study indicates a Median capitalization rate of 7.33% and a Mean (Average) capitalization rate of 7.72% which, the Complainant maintains is supportive of their requested 7.25% capitalization rate. The Complainant then directed the CARB's attention to (Exhibit C-2 pg. 42) a copy of the Assessor's *2013 Suburban Office Capitalization Rate Summary* which provides a synopsis of eleven (11) sales of suburban office buildings with quality classifications of 'A+', 'A-', 'B+', 'B-' and 'C'. These sales were recorded between August 8/11 and June 1/12. The indicated Median for the 'A' classed buildings is 5.85% and the Median (Average) for this same category is 5.63%. The indicated Median for the 'B & C' category of buildings is 6.01% and the Mean (Average) for this category is 6.71%. Based upon this analysis the assessed capitalization rates are 6% for the 'A' buildings and 6.75% for the 'B & C' buildings. The Complainant reproduced this same study (Exhibit C-2 pg. 43) wherein the data set has been segregated into two separate groups, those being 'A+ & A-' buildings and 'B+, B- & C' buildings which shows that the Median for the 'A' category is 5.85% and the Mean is 5.63%. The indicated Median of the 'B & C' group is 6.01% and the Mean is 6.71%. The Complainant noted that upon further examination this segregation of the data set also shows that the two 'B+' classified buildings have sales price indicators that are closer to the 'A' classed buildings suggesting that including these two 'B+' buildings with the 'B- & C' class buildings skew the results producing a lower indicated capitalization rate than would be produced if the 'B+' buildings were included with the 'A' buildings.

[8] The Complainant introduced (Exhibit C-2 pg. 62) an excerpt from the Assessor's *Office Valuation Guide – June 1998* which states, under the Heading 'Selection of a Capitalization Rate', "*Such things as age, state of repair, and location the affect risk associated with the property and therefore the capitalization rate that should be applied. Generally speaking, superior and/or newer properties have lower capitalization rates*". Given that the subject property has a year of construction dating to 1980, this also supports the Complainant's contention that the subject property warrants a higher capitalization rate.

Respondent's Position:

[9] With regard to the issue of the assessed office rental rate, the Respondent provided (Exhibit R-1 pgs. 15 – 45) a series of recent (2012) CARB decisions which deal with the same issue as that being argued herein and these decisions favour the position of the Respondent. The Respondent acknowledged that the CARB is not bound by such decisions but suggested, in terms of continuity, that the CARB give them consideration. The Respondent then provided (Exhibit R-1 pg. 47) a copy of a map showing what geographic areas are included in their southeast suburban office rental rate analysis and noted that it includes Manchester wherein the subject property is located. This is followed (Exhibit R-1 pg. 54) by a copy of the Respondent's *2013 Suburban Office Lease Analysis: B Quality SE* which has high-lighted those properties analyzed that are located within the Manchester and immediately adjacent areas. The Respondent noted that of the approximately 66 leases analyzed for the study, some 37, or roughly 57%, are from within the area of the subject. The respondent also noted that this study indicates a Mean of \$15.76/Sq. Ft. and a Median of \$16/Sq. Ft. which supports the assessed rate of \$16/Sq. Ft.

[10] The Respondent introduced (Exhibit R-1 pg. 57) their Suburban Office Capitalization Rate Summary, as referenced by the Complainant (Exhibit C-2 pg. 42) in their disclosure. The Respondent suggested that this study is supportive of the Assessor using a 6.75% capitalization rate for the 'B & C' classified buildings. The Respondent then provided (Exhibit R-1 pg. 111) an analysis of the Complainant's sales utilized for their capitalization rate study showing the Assessment to Sales Ratio (ASR) for same using the assessed capitalization rates which indicated a Median of 1.00 and a Mean of 1.04. The same sales were then analyzed using the capitalization rate requested by the Complainant which indicated a Median of 0.93, the latter of which is not within acceptable tolerances. This information, the respondent suggests, is fully supportive of the assessed capitalization rate.

Complainant's Rebuttal

[11] The Complainant introduced (Exhibit C-3 pg. 3) a chart showing five (5) leases, signed in 2011/12, from a property located in the Midnapore area together with three (3) leases signed in the same time period for properties located in what the Complainant refers to as the Central Industrial area (Manchester and immediately adjacent areas). The Median lease rate of the Midnapore leases was indicated to be \$18/Sq. Ft. while the Median for the Central Industrial area was indicated to be \$16.25/Sq. Ft. which supports their contention that the Manchester area leases at a different rate than other parts of what the Assessor considers the southeast. The Complainant then produced (Exhibit C-3 pg. 4) a copy of the Respondent's *2013 Suburban Office Rental Analysis* showing some forty-one (41) leases, ten (10) of which the Complainant maintains show incorrect lease rates (2 examples), incorrect addresses (4 examples) or which

were not incorporated into the Respondent's evidence (4 examples). Twenty-three (23) of the remaining leases the Complainant was unable to verify as those leases stem from properties not represented by the Complainant's company. The Complainant also provided (Exhibit C-3 pg. 69) a chart showing four (4) sales, one being a portfolio, of 'B', 'B-' and 'C' classed buildings. Two of the sales were recorded in October and November of 2011 and they indicate a Median sale price of \$128.82/Sq. Ft.. The other two sales were recorded in October of 2010 and February of 2011 and those two sales indicate a Median sale price of \$165.92/Sq. Ft.. The foregoing illustrates that, contrary to the Respondent's claim that the real estate market was appreciating year over year, the opposite trend is actually indicated. The Complainant concluded their Rebuttal with (Exhibit C-3 pg. 70) a chart showing the four (4) sales they utilized for their capitalization rate study showing the Assessment to Sales (ASR) ratios of the properties using the Respondent's assessed values and the property values that would result from using the Complainant's requested capitalization rate of 7.25%. Using the Respondent's values the Median ASR is 1.04 whereas the ASR derived from the Complainant's suggested values is 0.97.

Board's Decision Reasons:

[12] Insofar as the issue pertaining to the assessed office rental rate is concerned, the CARB is of the judgment that it does not have jurisdiction over such matters as the boundaries of any particular lease rate study area utilized by the Respondent. The Complainant suggests that the southeast area utilized for their rental rate study is too large and if the study area were reduced in geographic scope then the results would be different. While that may, or may not, be the case, the CARB is satisfied that the Respondent has incorporated sufficient lease examples from the Manchester area in their study that the results incorporate a fair representation from that particular area. Suggesting that the geographic boundaries of the study be either contracted or expanded is a matter that the Complainant should discuss directly with the Assessor, it is not a matter to be brought to the CARB for resolution. The Board is somewhat perplexed by the Complainant's chart (Exhibit C-3 pg. 4) which indicates a number of leases which the Complainant maintains they are unable to verify as they do not represent those property owners. The Board is not aware of any legislation or directive that requires the Assessor to utilize lease data derived only from the Complainant's client list. The fact that the Complainant is unable to verify some of the data based upon this reasoning is of no particular value to the CARB. Certainly if there are valid corrections to be made to the data in-puts, the CARB will give consideration to same. The CARB is of the judgment that the Respondent has generated a typical office lease rate from sufficient data, including the subject's Manchester location, that no change in the assessed office rate is warranted.

[13] The Quality Classification of a property is primarily a subjective matter over which the CARB has no jurisdiction. For either party to a Complaint before the CARB and go on at length with evidence of one type or another to support their position as to what is the appropriate Quality Classification for a property is of little value to the CARB. The real issue the CARB has to deal with is to determine if the property in question has been assessed fairly, equitably and correctly. In the case of a property that has been assessed on the basis of the Income Approach this then relates to the various in-puts utilized by one party or the other in application of that valuation approach. In the matter before us the issue boils down to what capitalization rate should be applied to the subject property to derive an accurate assessed value. Suggesting to the CARB that a capitalization rate study should be refined in terms of what Quality Classifications should or should not be included is of little relevance because such an argument

can really never be completely satisfied. For example one might suggest that the study should exclude 'A+' buildings or that it should include 'A' buildings, etc.

[14] The Respondent has utilized a capitalization rate of 6.75% to derive the assessed value of the subject property but the Complainant suggests that a capitalization rate of 7.25% would be more appropriate. The basis for the Complainant's argument is the segregation of the Respondent's Capitalization Rate Summary into different Quality Classifications. While there may be some merit to this suggestion, the CARB is of the judgment that same would only be of use if the universe of sales was sufficiently large to allow for each and every Quality Classification to be listed separately so that there would be a clear delineation between say, 'A+' building and 'A-' buildings. The Respondent has provided a capitalization rate study that incorporates a variety of suburban office buildings with various Quality Classifications which support the applied capitalization rates for assessment purposes and the CARB finds this to be a reasonable approach. Refining the list by Quality Classification is, in this case, somewhat akin to 'splitting hairs'. In the final analysis the CARB is more convinced by the evidence of the Respondent and, accordingly the assessed value is **confirmed**.

DATED AT THE CITY OF CALGARY THIS 25 DAY OF October 2013.



C. J. Griffin

Presiding Officer

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

NO.	ITEM
1. C1	Complainant Disclosure (two parts)
2. C2	Complainant Capitalization Rate Study (submitted in 2 parts)
3. C3	Complainant Rebuttal
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.*

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Municipality: Calgary	Decision No. 72966/P-2013	Roll No: 101014603	
<u>Property Type</u>	<u>Property Sub-Type</u>	<u>Issue</u>	<u>Sub-Issue</u>
Office	Suburban Office	M.V.	Office Rental Rate & Capitalization Rate