

## **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:

**1000028 ALBERTA LTD.**  
**(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:

<b>ROLL NUMBER:</b>	<b>200377760</b>
<b>LOCATION ADDRESS:</b>	<b>1110 Centre Street, NE</b>
<b>FILE NUMBER:</b>	<b>73019</b>
<b>ASSESSMENT:</b>	<b>\$13,550,000</b>

This complaint was heard on 23rd 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 comprises a 5 storey "B" quality office building, located at 1110 Centre Street NE. It is situated in the inner-city district known as Crescent Heights, and more specifically, on the commercial strip known as Centre Street North. The building has an assessed area of 59,125 square feet (sf), and includes 98 enclosed parking stalls. The year of construction is 1980. The building is situated on a 19,561 sf parcel of land which is zoned Direct Control.

**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 assessed office rental rate for the subject is too high, reflecting an incorrect assessment.

**Complainant's Requested Value: \$ 11,110,000**

**Board's Decision**

- [5] The Board reduces the assessment to \$12,760,000

**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	\$3,077,40	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 [C-2]. 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,C-2], 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. The portion reflecting the B & C quality offices is replicated below [Pg. 98, R-1] :

## 2013 Office Capitalization Rate Summary

Sale #	Address	Qual.	AYOC	Sale Date	Sale Price	Area <sup>sf</sup>	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,R-1]. 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,R-1]. 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.
- [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, [Pgs.279-285,R-1].
- [26] Finally, The Respondent referenced a number of MGB and CARB decisions, in support of their position.

**Issue #2: The assessed office rental rate for the subject is too high.****Complainant's Position:**

- [27] The Complainant submits that the subject's assessed office rate of \$15.00 psf is excessive and not representative of typical market rents for the property. In the Complainant's opinion, the appropriate assessed office rate should be \$14.00.
- [28] In support of the requested value, the Complainant submitted a rental rate study, specific to the subject commercial district known as Centre Street North. The analysis consists of 13 leases in 4 separate B class buildings including the subject. The lease start dates range from July 1, 2011 through July 1, 2012. The median rental rate of the 13 leases is \$14.00, while the average rate is \$13.95 [Pg.25,C-1].
- [29] Additionally, the Complainant provided an extract of the 4 leases included in the above referenced analysis that are from the subject building. The leases range in start dates from July 1, 2011 through January 1, 2012 and display median and average rental rates of \$12.50 and \$13.63 respectively.
- [30] The Complainant argues that the City has lumped the B quality office leases for the subject location into one large northwest analysis zone, which is not necessarily representative of the subject's specific economic location. The Complainant argues that historically, where sufficient data was available, the City did rental rate analyses for individual economic zones. The Complainant reasons that, in this instance, sufficient rental data is available for the Centre Street North zone, and the analysis of those leases suggests that a market rental rate of \$14.00 is more appropriate than the assessed \$15.00 rate.
- [31] In support of their request, the Complainant references CARB Decision 094-2011, wherein the City prepared a separate office rental rate analysis respecting a specific economic location. The rental rate analysis for Quarry Park was prepared separately from the global analysis that was prepared for all other southeast offices. The Complainant reasons that the same should be done in this instance.
- [32] Additionally, the Complainant references CARB Decision 1160/2012P. In this instance the issue was shown to be similar to that above, and the separate stratification was accepted by the Board. The Complainant suggests that the same should apply in the subject case.
- [33] Finally, the Complainant referenced extracts from a 2010 City CARB submission wherein the City appeared to have segregated Centre Street North, together with three other northwest zones, from the general northwest population.

**Respondent's Position:**

- [34] In support of the \$15.00 B quality rental rate being applied to the subject assessment, the Respondent has provided a summary titled "2013 Suburban Office rental Analysis: B quality NW" [Pgs.18 &19 of R-1]. The analysis contains a total of 41 leases showing a mean of \$15.83, a weighted mean of \$14.46 and the resulting typical assessed rate of \$15.00. The Respondent reasons that the zones included in the analysis are all similar to Centre Street North from an economic perspective. All of the leases in the Complainant's analysis are included in the City analysis. Besides, unlike Quarry Park, there is no glaring sales evidence in the subject community that supports segregation.

To do so would be a departure from Mass Appraisal techniques.

- [35] Further to this, the Respondent argues that CARB 094-2011-P was based on a sufficient amount of leasing and sales activity. Not just one single component of the Income Approach (ie: rental rate) should be changed, without sufficient sales evidence to support the adjusted value.

#### **Board's Reasons for Decision:**

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

- [36] There was insufficient market evidence from the Complainant to convince the Board that a variance to the capitalization rate is justified.
- [37] 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%.
- [38] 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 real estate report, (Altus Insite), as being B class offices, [Pg.62, R-1].
- [39] 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.
- [40] 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.
- [41] The Board considered 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 Complaint's sales, being as much as 20 months distant.
- [42] 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

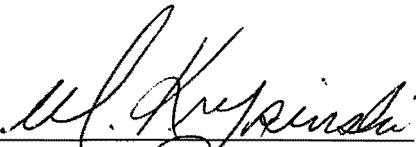
not bound by previous Orders. Ultimately, the Board forms its decision based on evidence and argument as presented, relative to the Hearing.

- [43] 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 assessed office rental rate for the subject is too high.**

- [44] The Board found that the Complainant's evidence respecting the office rental rate was compelling. The Altus analysis included 13 leases from the Centre Street North zone, within close proximity to, and including the subject property. It is the Board's opinion that this constitutes a sufficient data sample to reflect the economic nature of Centre Street North on its own merits. The analysis results clearly support the requested office rental rate of \$14.00.
- [45] Furthermore, in referencing the City rental rate analysis, it was noted that 16 out of 41 leases were from the Kensington district. This represents a large amount of the lease sample, and the somewhat higher lease rates from this area tend to skew the analysis.
- [46] The Complaint is allowed in part, with respect to the office rental rate issue only. Accordingly, the assessment is reduced to \$12,760,000.

DATED AT THE CITY OF CALGARY THIS 20<sup>th</sup> DAY OF August 2013.



Walter F. Krynski

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 Appendix A
4. C3	Complainant Appendix A continued
5. C4	Complainant Rebuttal
6. C5	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. Office Rental Rate	