



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:

***Dundee Canada Limited Partnership (as represented by Altus Group Limited),
COMPLAINANT***

and

The City Of Calgary, RESPONDENT

before:

H. Kim, PRESIDING OFFICER

Y. Nesry, BOARD MEMBER

A. Wong, 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:	902513381
LOCATION ADDRESS:	1601 Airport Road NE
FILE NUMBER:	73179
ASSESSMENT:	\$29,740,000

This complaint was heard on the 28th of October, 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, Altus Group Limited*

Appeared on behalf of the Respondent:

- *K. Buckry, Assessor*

Property Description:

[1] The subject is an 8 storey A class office building known as the Airport Corporate Centre, located at the Calgary International Airport (YYC) and connected by a Plus 20 walkway to the main terminal building. It was constructed in 2000 and consists of a MRO (maintenance, repair and operations) level, a mezzanine area, three parking levels and main entrance lobby. In July 2007, the current owners purchased floors two to eight of the office building for \$38,075,000 from GWL Realty Advisors Ltd. The Calgary Airport Authority retained ownership of the balance of the building. The assessment is based on the fee simple value of the land and improvement using the income approach to value.

[2] The building contains 21,169 sf of exempt office space that is assessed to Alberta Health Services on a separate roll number. The assessed rentable area of the office is 127,194 sf at a market rent of \$17/sf. Vacancy and nonrecoverables of 11% are deducted to arrive at a net operating income (NOI) of \$1,784,532 which is capitalized at 6.0% to arrive at a value of \$29,742,197 which, truncated, results in the assessment under complaint.

Issues:

[3] The Complaint form identified a number of reasons for complaint; however at the hearing the only issue argued was whether the rental rate should be reduced from \$17/sf to \$14/sf to reflect market lease rates.

Complainant's Requested Value: **\$24,080,000**

Board's Decision:

[4] The assessment is reduced to \$24,080,000

Complainant's Position:

[5] The subject building and the owner occupied Westjet building are the only two office buildings at YYC. Due to lack of public transit, the office space attracts a narrower spectrum of tenants than suburban offices, and typical suburban lease rates should not be applied.

[6] The Complainant presented the April 2013 rent roll indicating 24.7% of the space is vacant. Leasing brochures from CBRE were submitted to show the space is actively marketed; however, due to challenges of the airport location, the lease rates achieved are lower than for typical suburban offices, and significantly lower than the \$17/sf assessed.

[7] The Complainant presented a list of five leases in the subject commencing January 2010 and later to support this position.

Unit Number	Leased Area (sf)	Start Date	End Date	Lease rate/sf
708	3,433	1-Jan-10	31-Dec-14	\$ 16.50
830	1,526	1-May-10	30-Apr-15	\$ 11.00
705	5,067	1-Jan-11	31-Dec-20	\$ 14.00
710	4,990	1-Jan-11	31-Dec-20	\$ 14.00
210	6,118	1-Aug-11	31-Jul-15	\$ 13.00
			Median	\$ 14.00
			Average	\$ 13.70
			Weighted Average	\$ 13.90

The average is \$14, the median and weighted average of the five most recent leases are all around \$14/sf and form the basis of the requested lease rate.

Respondent's Position:

[8] The Respondent pointed out that the \$29,740,000 assessment of the subject, along with the \$4,950,000 exempt portion, totals \$34,690,000 which is less than the \$38,075,000 purchase price.

[9] The Respondent presented the Income Approach Valuation for the Golder Building at 2535 3 Ave SE and the Medallion Business Centre (now renamed Vista Heights) at 1925 18 Ave NE to show that the Northeast Office Space rate is \$18/sf. The subject building is comparable to A class suburban office buildings, but 10% vacancy was applied instead of 8% and \$17/sf rental rate as compared to \$18/sf. The Respondent stated that the assessment was prepared based on typical income parameters of suburban office buildings but that he had not been made aware that the parameters had been slightly modified, which accounted for the difference.

[10] The Respondent presented the May 2012 rent roll which showed vacancy of 10.44% and also noted that the \$16.50/sf Jan 2010 lease referred to by the Complainant had a step-up to \$17.50/sf in Jan 2012. The Respondent presented an analysis of all of the leases, with the rates currently in effect:

Unit Number	Leased Area	Start Date	Term	Type	Lease rate/sf
200	15,508				
210	6,118	2011	4		\$13.00
300	21,169	2009	3	N	\$16.00
400	21,169	2007	10	GOV	\$18.87
500	21,169	2007	10	GOV	\$18.87
600	21,169	2007	10	GOV	\$18.87
705	5,067	2011	10	N	\$14.00
708	3,433	2010	5	N	\$17.50
710	4,990	2011	10	N	\$14.00
725	3,605	2008	5	N	\$25.00
740	1,513	2008	5	N	\$14.00
745	1,221	2009	5	N	\$21.00
750	1,088	2009	5	N	\$28.00
800	14,619	2012	2	GOV	\$18.43
810	2,049	2010	4	N	\$19.00
820	2,731	2008	5	N	\$25.00
830	1,526	2010	5	N	\$11.00
840	334	2009	5	N	\$24.00

The average of all leases in the subject is \$18.62/sf and the weighted average is \$17.95/sf. Two previous CARB decisions on the subject property were presented, confirming the assessment of the subject building in 2011 and 2012. In both of those decisions, the Board found that the entire rent roll and the actual operating income supported the lease rates applied by the Respondent.

[11] The Respondent disputed the Complainant's contention that lack of public transit negatively impacted the building's appeal. The Plus 20 connection the terminal building provides access to many services and amenities, and the rent roll shows that many business need to be close to the airport. The many government agencies located in the building shows that there is demand for the space, and the most recent lease is \$18.43/sf in 2012.

Complainant's Rebuttal:

[12] The rent roll at April 2013 indicates small discrepancies in the lease rates from those presented by the Respondent, and also shows that the government leases pay less CAM and taxes, which is why the rents are higher than typical.

[13] The Complainant also disputed the consideration of the older leases. Leases in the subject building segregate into two ranges: leases starting between Jan 2007 and June 2009 average \$20.56/sf while those between Jan 2010 and Aug 2011 average \$14.58/sf. The Complainant presented appraisal references, including an excerpt from the *Alberta Assessors' Association Valuation Guide* which discusses determining market rents as of the valuation date, and provides guidelines that the best evidence of market rents are actual leases signed on or around the valuation date, and actual leases within the first three years of their term as of the valuation date. The \$18.43/sf lease in 2012 was a two-year extension of a Transport Canada lease and would not have reflected a "typically motivated" tenant that would have negotiated a lease at market value.

[14] Submissions from the Respondent at other hearings stated:

Older information would be given less consideration in a market transaction. What occurs in the market place is the same methodology employed by the Assessment Business Unit to determine typical rent rates.

Many proceedings dealt with whether current market activity at the valuation date should be considered over more dated information. The Complainant presented an excerpt from the Respondent's evidence at a previous hearing where the Respondent quoted a dozen CARB decisions all stating that the most recent leases at the valuation date should be considered. The most recent leases in the subject building support a rate of \$14/sf.

[15] The leases in the Golder building are all around 2009 and of limited use, however the leases in Vista Heights commenced between August 2011 and April 2012. The ten leases presented have an average of \$17.75, a median of \$18.00 and weighted average of \$17.37. In comparison, the six recent leases in the subject have an average of \$14.58, a median of \$14.00 and weighted average of \$14.35. Clearly the subject is not achieving the lease rates of a typical A class suburban office building. The subject is unique and should not be assessed as a typical suburban office building.

[16] The Complainant stated that the July 2007 purchase price cannot be used to support the assessment. The market has changed considerably within the intervening time. An analysis of the rent rolls since the sale date shows that the performance of the subject has declined over the past few years.

Findings and Reasons:

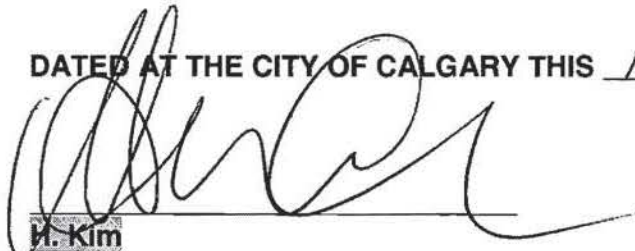
[17] The subject is one of only two office buildings at YYC, and the other is owner occupied.

This building has a unique location which might be an asset or a detriment depending on the perspective of the potential lessee. As such, the Board does not consider it to be a typical A class suburban office, and finds that the lease rates actually achieved to be a better indication of the lease rates that could be expected in the subject.

[18] With respect to the Respondent's contention that the entire rent roll should be considered, the Board notes that there is a substantial difference in the range of rents achieved near the time of sale and still in effect, compared to leases that commenced more recently. The Board finds that the recent leases would be more reflective of current market, and agrees that they support a lower lease rate than that applied in the assessment.

[19] Accordingly, the Board determined that a \$14/sf rate is reasonable and appropriately reflects the market lease in the subject.

DATED AT THE CITY OF CALGARY THIS 19th DAY OF November 2013.


H. Kim
Presiding Officer

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

NO.	ITEM
1. C1	Complainant's Disclosure
2. R1	Respondent Disclosure
3. C2	Complainant's 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-Issues
(3) Office	Low Rise	Income Approach	Net Market Rent