



Calgary Assessment Review Board

DECISION WITH REASONS

In the matter of the complaint against the 2014 property assessment as provided by the *Municipal Government Act*, Chapter M-26, Section 460, Revised Statutes of Alberta 2000 (the Act).

between:

***1022224 Alberta Ltd., COMPLAINANT
(as represented by Altus Group)***

and

The City Of Calgary, RESPONDENT

before:

***I. Weleschuk, PRESIDING OFFICER
P. Cross, BOARD MEMBER
A. Maciag, 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 2014 Assessment Roll as follows:

ROLL NUMBER:	757119904
LOCATION ADDRESS:	51 Sunpark Dr. SE
FILE NUMBER:	74462
ASSESSMENT:	\$10,850,000

This complaint was heard on 19th day of August, 2014 at the office of the Assessment Review Board located at Floor Number 4, 1212 – 31 Avenue NE, Calgary, Alberta, Boardroom 5.

Appeared on behalf of the Complainant:

- *B. Neeson, Agent – Altus Group*

Appeared on behalf of the Respondent:

- *M. Ryan, Assessor – City of Calgary*

Procedural or Jurisdictional Matters:

[1] Neither party objected to the Board as constituted to hear and decide on this matter.

[2] Both parties requested that the evidence related to the methodology of calculating rental rates (Exhibit C2), specifically the period used to derive the rental rate, questions, answers and closing statements heard as part of File No. 74284 be carried forward into this hearing. The Board agreed to carry forward all evidence, comments, answers, questions and closing statements, as requested and indicated that its questions on this issue will also be carried forward.

Property Description:

[3] The subject property is a three storey medical/dental office building located at 51 Sunpark Dr. SE, in the Sundance District. The subject area consists of a number of office buildings. The property is 1.00 acre in size, with a total of 27,652 square feet (SF) of assessable area, all being medical/dental space. There are also 24 enclosed parking stalls on the property. The building was constructed in 2005 and is assigned an A+ Quality rating for assessment purposes. The property is zoned Direct Control (DC) District.

[4] The 2014 property assessment is calculated using the Income Approach. The net operating income (NOI) of \$651,115 is divided by the capitalization rate of 6.00%, resulting in an assessment of \$10,850,000 (truncated). The specific factors used to prepare the assessment for this A+ Quality Medical/Dental Office property are presented in the table below.

Sub-components	Area	Rental Rate (\$)	Vacancy Rate %	Operating Cost (\$/SF)	Non-Recoverable %
Office	27,651 SF	25.00/SF	6.00	15.50	1.00
Parking	24 stalls	1,440/stall	2.00	0.00	1.00

Issues:

[5] The Complainant stated that the 2014 Assessment is incorrect for the following reasons:

- The medical/dental office rental rate of \$25.00/SF is not correct. The correct office rental rate for this property is \$19.00/SF.

Complainant's Requested Value: **\$8,270,000**

Board's Decision:

[6] The 2014 Property Assessment is reduced to \$9,560,000, based on changing the medical/dental office rental rate to \$22.00/SF.

Legislative Authority, Requirements and Considerations:

[7] Section 4(1) of Matters Relating to Assessment and Taxation Regulation (MRAT) states that the valuation standard for a parcel of land is "market value". Section 1(1)(n) defines "market value" as "the amount that a property, as defined in Section 284(1)(r) of the Act, might be expected to realize if it is sold on the open market by a willing seller to a willing buyer." Section 467(3) of the Act states that "an assessment review board must not alter any assessment that is fair and equitable, taking into consideration (a) the valuation and other standards set out in the regulations". The issues raised in the Complaint may refer to various aspects of the assessment or calculation of the assessed value, and may be addressed by the Board. However, the ultimate test that the Board must apply is whether the assessed value reflects the market value of the assessed property.

[8] The Board notes that the words "fair" and "equitable" are not defined in the Act or its Regulations. Equitable is defined in Black's Law Dictionary (Seventh Edition, West Group, St. Paul, Minnesota, 1999) as "just, conformable to principles of justice and right". For the purpose of this decision, the Board considers an assessment that reflects market value to be "fair and equitable" as the taxpayer is being assessed in accordance with the assessment standard applied to all properties in that property category.

Issue 1: What is the correct medical/dental office rental rate for the subject A+ Quality property?**Complainant's Position:**

[9] The Complainant's position is that the subject property cannot achieve a rental rate of \$25/SF. A Rent Roll from 31 Sunpark Plaza SE, the most comparable property to the subject (page 31, Exhibit C1), was presented to demonstrate that ten leases were signed in 2013 and 2014, ranging in value from \$8.00 to \$20.00/SF. These leases support the requested rental rate of \$19/SF.

[10] The Complainant presented the City's 2013 Suburban Medical/Dental Office Rental Rate Analysis: A Quality SE (page 49, Exhibit C1), which consists of three leases signed in a building located at 290 Midpark Way SE, and indicate a rental rate of \$22/SF. This analysis and rate were used to prepare the 2013 Assessment. The Complainant argued that the City appears to have arbitrarily reclassified this property as a B Quality medical/dental office for the 2014 Assessment year, and therefore is not using these leases in its 2014 analysis. The Complainant argued that while the 290 Midpark Way SE property is older (1980s vintage), it is otherwise similar to the subject and was relied on last year to derive the rental rate for A Quality medical/dental office space. Furthermore, nothing physically has changed to result in the property being reclassified.

[11] The Complainant noted that the City used leases only for a twelve month period preceding the July 1, 2013 valuation date in its analysis. This appears to be an arbitrary decision. The Complainant provided examples of other rate analysis done by the City where the data spans two or more years prior to the assessment date (Exhibit C2). This arbitrary twelve month period is used to eliminate a number of lease comparables, including the three from 290 Midpark Way SE, which occurred in October 2012 (some twenty months prior to the valuation date).

[12] In response to the 2014 Suburban Medical/Dental Office Rental Analysis: A Quality in the SE and SW presented by the City (page 29, Exhibit R1), the Complainant argued that the five lease comparables used are properties that are located a considerable distance from the subject, in a different locational setting and much smaller buildings. Therefore, it was the Complainant's opinion that none of the Respondent's comparables are similar to the subject. Furthermore, the Complainant noted that these leases (with a mean of \$31/SF) do not support the \$25/SF rental rate used in the 2014 Assessment.

Respondent's Position:

[13] The Respondent presented its 2014 Suburban Medical/Dental Office Rental Analysis: A Quality in the SE and SW (page 29, Exhibit R1) and took the position that the five lease comparables reflect the market value of medical/dental space in the SE and SW quadrants. The two quadrants are grouped as there is limited medical/dental lease information, but these properties compete in the same market. The leases range in value from \$28 to \$35/SF. The rental rate used for assessment purposes is \$25/SF because these leases indicate a much larger increase year over year than the market. The value of \$25/SF is thought to be a reasonable increase based on this lease analysis.

[14] The Respondent stated that the property located at 290 Midpark Way SE was reclassified based on an inspection of the property that occurred late in 2013. The Respondent remarked that due to the age of this building, it appeared to be more similar to a B Class than an A Class medical/dental office building.

[15] The Respondent stated that they look at the data available and decide on how far back they need to go for each rate analysis. The desire is to use the most current information, but if insufficient data exists, the analytical period may be extend to two years or more. In this case, the Respondent believes that they have sufficient data to use only a one year period to derive the rental rate.

[16] The Respondent presented a lease analysis using its five comparables as well as the three lease comparables from the 290 Midpark Way SE property (page 36, Exhibit R1) to demonstrate that even if these three leases from 290 Midpark Way SE are included in the analysis, the rental rate is still \$25/SF.

Findings of the Board on this Issue:

[17] The Board notes that there is quite a large range of lease rates (\$8 to \$20/SF) in the Rent Roll presented for 31 Sunpark Plaza SE. There was insufficient evidence presented to explain why this large range exists, therefore it was not clear what market rate is being indicated.

[18] The Board reviewed the five lease comparables presented by the Respondent and finds that they are much smaller properties than the subject, therefore not good comparables.

[19] The Board finds that the best rental evidence presented is the three October 2012 leases from the 290 Midpark Way SE property, indicating a rental rate of \$22/SF. The Board was not provided with any evidence to indicate that this property was not similar to the subject, other than the difference in the age of the buildings. The analytical period should be based on what period is required to provide a reliable/sufficient set of data (and time adjustments can be made to this data if necessary). The Board is not restricted to use the same analytical period as the Respondent, and can expand this period if warranted by the data presented.

Board's Reasons for Decision:

[20] The 2014 Property Assessment is reduced to \$9,560,000 (truncated) based on the Board finding that the rental rate for medical/dental office space for the subject property is \$22/SF. No other factors used to derive the 2014 Assessment using the Income Approach were in dispute. The calculation of the assessed value using a rental rate of \$22/SF is shown below.

	Office	Parking	
Assessed Area/Stalls	27,651.00	24.00	
Rental Rate	22.00	1,440.00	
Potential Net Income	608,322.00	34,560.00	642,882.00

Vacancy Allowance (rate)	0.06	0.02	
Vacancy Allowance	36,499.32	691.20	37,190.52
Effective Net Income	571,822.68	33,868.80	605,691.48

Operating Cost (rate)	15.50	0.00	
Operating Cost Shortfall	25,715.43	0.00	25,715.43

Non-Recoverables (rate)	0.01	0.01	
Non-Recoverables	5,718.23	338.69	6,056.91

Net Operating Income			573,919.14
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Capitalization Rate			0.06
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Calculated Assessed Value			9,565,319
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DATED AT THE CITY OF CALGARY THIS 3rd DAY OF September 2014.



I. Weleschuk
Presiding Officer

**DOCUMENTS PRESENTED AT THE HEARING
AND CONSIDERED BY THE BOARD:**

Subject	Type	Sub-Type	Issue	Sub-Issue
CARB	Suburban Office	A Class	Office Rental Rate	Medical/Dental