



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:

***Knightview Developments Inc., (as represented by Assessment Advisory Group Inc.),
COMPLAINANT***

and

The City Of Calgary, RESPONDENT

before:

***Board Chair, T. Hudson PRESIDING OFFICER
BOARD MEMBER, B. Bickford
BOARD MEMBER, P. Loh***

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: 067098608

LOCATION ADDRESS: 640 12 AV SW

FILE NUMBER: 74859

ASSESSMENT: \$8,710,000

This complaint was heard beginning on the 12th day of June, and concluding on the 13th day of June, 2014 at the office of the Assessment Review Board located at Floor Number 3, 1212 – 31 Avenue NE, Calgary, Alberta, Board room 10.

Appeared on behalf of the Complainant:

- *Mr. S. Cobb, Agent, Assessment Advisory Group Inc.*

Appeared on behalf of the Respondent:

- *Mr. C. Fox, Assessor, City of Calgary*
- *Mr. K. Mulenga, Assessor, City of Calgary*

Board's Decision in Respect of Procedural or Jurisdictional Matters:

- [1] There were no procedural or jurisdictional matters in dispute between the Parties.
- [2] The Parties requested, and the Board agreed to reference the evidence and argument submitted with respect to complaint file #75919, when considering the decision on this file (i.e. file #74859).

Property Description:

[3] The subject property is a 0.26 acre parcel of commercial land located at 640 12 AV SW in the BL3 sub-market of the Beltline community. The land is improved with a low rise office building, including 33,346 square feet (sf.), of net rentable area.

[4] The property is currently assessed based on capitalized income.

[5] Details of the assessment include 32,776 sf. of "B" class quality office space at \$17.50 per square foot (psf.), and 569 sf. of below grade office space at \$8.00 psf. There are also 9 surface parking stalls assessed at \$3,540 per stall. Typical vacancy allowances are 8% for the office space, and 2% for the surface parking; resulting in a vacant space shortfall expense allowance of \$34,542. A \$5,631 non-recoverable expense allowance is also provided.

The resulting Net Operating Income (NOI) of \$522,931 is capitalized at a rate of 6.00%, yielding a total assessed value of \$8,715,517, or \$8,710,000 (rounded).

Issues:

Quality Class

[6] The Complainant requested that the quality class of the subject office building be changed from "B" to "C".

[7] The change would result in applying typical "C" quality value parameters to calculate the assessment as follows. Reduce the assessed rent rate on the main floor office to \$14.00 psf. from \$17.50 psf., increase the vacancy rate for all office space to 17% from 8%, and increase the cap rate to 6.25% from 6.00%.

Capitalization (Cap) Rate and Vacancy Rate

[8] The Complainant requests that the cap rate be increased from 6.00% to 6.50%, and the vacancy rate for office to 25% from 8%, if the quality class change request is refused.

Deduction of Leasing and Operating Costs

[9] The Complainant also requested a deduction of \$250,088 for leasing costs, and \$216,743 for operating costs, from the total assessed value.

Complainant Requested Value: \$4,890,000(rounded).

Board's Decision:

[10] The assessment of the subject property is reduced to **\$5,680,000(rounded)**.

Legislative Authority, Requirements and Considerations:

[11] The Composite Assessment Review Board (CARB), derives its authority from Part 11 of the Municipal Government Act (MGA) RSA 2000:

Section 460.1(2): Subject to section 460(11), a composite assessment review board has jurisdiction to hear complaints about any matter referred to in section 460(5) that is shown on an assessment notice for property other than property described in subsection (1)(a).

[12] For purposes of the hearing, the CARB will consider MGA Section 293(1):

In preparing the assessment, the assessor must, in a fair and equitable manner,

(a) apply the valuation and other standards set out in the regulations, and

(b) follow the procedures set out in the regulations.

[13] The Matters Relating to Assessment and Taxation Regulation (MRAT) is the regulation referred to in MGA section 293(1)(b). The CARB consideration will be guided by MRAT Part 1 Standards of Assessment, Mass appraisal section 2:

An assessment of property based on market value

(a) must be prepared using mass appraisal,

(b) must be an estimate of the value of the fee simple estate in the property, and,

(c) must reflect typical market conditions for properties similar to that property.

Complainant Position of the Issues

Quality Class

[14] The Complainant submitted a list of ten office buildings in the Beltline including the address, year of construction, quality class and assessed rent rate for each. (Exhibit C1, page 38).

[15] The list includes two "C" and eight "B" quality properties, and through photographs the Complainant explained their rationale for requesting the change to a "C" quality class for the assessment of the subject property based on equity.

[16] Also provided were the definitions of "B" and "C" quality office space published by the City of Calgary, to further illustrate that the subject property should be in the "C" quality class, (Exhibit C1, pages 16 and 17).

[17] Inadequate on-site parking is also a problem, with only 1 stall available for every 3,705 sf. of office space in the subject property. The evidence shows that some "B" quality office buildings in the Beltline have underground parking, while most "C" quality office buildings have surface parking at best, (Exhibit C1, pages 39-81).

Vacancy Rate and CAP Rate

[18] The Complainant submitted email correspondence and Assessment Requests for Information (ARFI), reports indicating the subject has been mostly vacant since March of 2011, at which time extensive renovations were planned, but photographs show little progress has been made to date, (Exhibit C1, pages 24-34).

[19] The Complainant submitted third party reports from Colliers and CBRE reporting actual cap rates in excess of 6.00 % for sales in the Beltline, in support of their request for an increase in the assessed rate to 6.50% for the subject, (Exhibit C2 pages 5 and 6).

Deduction of Leasing and Operating Costs

[20] The Complainant argued that any potential buyer would have to front these costs during the search for new tenants in the subject building.

Respondent Position on the Issues

Quality Class

[21] The Respondent submitted the 2014 assessments of twelve "C" quality class office buildings in the Beltline, (Exhibit R1 page 101); and seventeen "B" quality class office buildings including the subject in the Beltline, (Exhibit R2, page 162).

[22] The Respondent argued that the "B" quality class properties are extremely similar if not inferior to the subject, noting that the Altus InSite document also lists the subject as "B" quality.

[23] The Respondent noted that several of the "C" quality buildings they presented have no parking at all.

Vacancy Rate and Cap Rate

[24] The Respondent noted that the request for a 25% vacancy allowance is not supported with market evidence other than the ARFI reports from the subject.

[25] The Complainant request for a 6.50 % cap rate is not accompanied by any analysis, and the industry reports are insufficient evidence to justify the increase.

Deduction of Leasing and Operating Costs

[26] The Respondent argued that the lump sum deduction of \$466,830 requested by the Complainant as an additional non-recoverable expense, is based on a hypothetical leasing/sales scenario that is not supported by market or factual evidence.

[27] The Respondent noted that the income approach assessment calculation for the subject property includes a 1% non-recoverable allowance, and a \$13.00 psf. allowance for operating costs. These current allowances must be deducted from the lump sum request.

Board's Reasons for Decision:

[28] The Complainant's request to increase the assessed cap rate to 6.50% is not supported with sufficient evidence to justify the adjustment.

[29] There is also insufficient market evidence to support the request to increase the vacancy allowance to 25%, or increase the non-recoverable and/or operating expense by a lump sum of \$466,830 in calculating the assessed value of the subject property.

[30] Based on a balance of probabilities and the evidence presented, the Board finds that on the date of valuation, the subject property fit the description of a typical "C" quality Beltline office building, rather than the "B" quality as currently assessed.

[31] Based on this finding, the reduced assessment amount has been calculated using the typical value factors of a "C" quality office building including main floor rent at \$14.00 psf., office vacancy at 17%, and a 6.25% cap rate. The remaining value factors in the income approach to value calculation remain the same.

DATED AT THE CITY OF CALGARY THIS 16th DAY OF July 2014.




T. B. Hudson

Presiding Officer

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

NO.	ITEM
1. C1	Complainant Disclosure
2. C2	Additional Complainant Disclosure
2. 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

<i>Decision No. 74859P-2014</i>			<i>Roll No 067098608</i>	
<u><i>Subject</i></u>	<u><i>Type</i></u>	<u><i>Sub-Type</i></u>	<u><i>Issue</i></u>	<u><i>Sub-Issue</i></u>
CARB	Office	Stand Alone	Market Value and Equity	Quality Class