



## 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:

***Canada Mortgage And Housing Corporation,  
(as represented by: MNP LLP.),***

**COMPLAINANT**

and

***The City of Calgary,  
RESPONDENT***

before:

***W. Krynski,   PRESIDING OFFICER  
P. McKenna,   BOARD MEMBER  
R. Deschaine,   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:

<b>ROLL NUMBER:</b>	<b>024024507</b>
<b>LOCATION ADDRESS:</b>	<b>5055 11 Street NE</b>
<b>FILE NUMBER:</b>	<b>74887</b>
<b>ASSESSMENT:</b>	<b>13,490,000</b>

This complaint was heard on 14<sup>th</sup> day of July, 2014 at the office of the Assessment Review Board located at Floor Number 3, 1212 – 31 Avenue NE, Calgary, Alberta, Boardroom #10.

Appeared on behalf of the Complainant:

- *W. Vanbruggen - Agent MNPLLP*
- *G. Worsely - Agent MNPLLP*

Appeared on behalf of the Respondent:

- *T. Neal – Assessor, City of Calgary*
- *R. Tharakan - Assessor, City of Calgary*

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

[1] Neither party objected to the composition of the Board, as introduced at the outset of the Hearing.

[2] At the outset of the Hearing, the Complainant requested that the Capitalization Rate issue, which is germane to the subject Complaint, be cross-referenced to the following six property Complaints of a similar nature: #74867; #74852; #74862; #74863; #74864; #74834. The Respondent was in agreement, and the Board consents to the request.

**Property Description:**

[3] The Subject Property consists of a 4.48 acre parcel of land, zoned "Industrial-Business", located in the Skyline East Community. The parcel is improved with a 64,200 square foot (sf.) three-storey suburban office building, with 46,535 sf. of office finish above grade, and 17,665 sf. of office below grade. The building was constructed in 2000, and is classified as being "A" quality.

**Issues:**

[4] The subject property is assessed on the Income Approach to value. The Complainant contends that the Capitalization Rate (cap. rate) applied by the Assessor is incorrect, thereby resulting in an erroneous assessment.

**Complainant's Requested Value:** 11,990,000

**Board's Decision:**

[5] For the reasons outlined herein, the Board confirms the assessment at 13,490,000.

**Legislative Authority, Requirements and Considerations:**

[6] The Calgary Composite Assessment Review Board takes authority from the Act and associated Regulations.

**Complainant's Position:**

[7] The Complainant's evidence and disclosure document was presented and labelled Exhibit C1 (317 pgs.). The sole issue of the Complainant is the cap. rate that is applied in the Income Approach valuation. The Complainant contends that the correct cap. rate should not be 6%, but rather 6.75%, while all other income coefficients are considered to be correct.

[8] Various maps, aerials and photographs were provided, to offer a visualization of the location and building characteristics of the subject Property.

[9] The Complainant referenced "MNP's Suburban Capitalization Rate Study" [C1; Pg.21], consisting of six office property transactions that occurred between July 2012 and May 2013. The Study revealed derived cap. rates ranging from 6.23% to 7.27%, with average and median values of 6.74% and 6.78% respectively. The Complainant reasoned, based on the foregoing results, that a cap. rate of 6.75% is in order.

[10] The Complainant further noted that 4 of the 6 sales in the MNP study are also utilized by the City in their analysis. The main reason for the differing results is that the MNP analysis utilized a \$14.00 typical rent in calculating the typical net operating incomes (NOI's) in the sale analysis, whereas the City employed a \$13.00 typical rental rate in determining their NOI's.

[11] The Complainant further explained that, within the cap. rate analysis process, the City's methodology of determining typical NOI's is to employ income parameters from the previous calendar year (January to December). The MNP methodology differs in that, for the same sale, MNP employs data from the next assessment year (July to July). The Complainant reasons that the MNP methodology uses more current data, thereby producing a more accurate result.

[12] Finally, in Rebuttal Document [C2; 39 Pgs.), the Complainant references a number of Assessment to Sale Ratio (ASR) charts, wherein various scenarios are provided utilizing variations of MNP and City sales, both with and without time adjustments to the sales.

**Respondent's Position:**

[13] The Respondent submitted evidentiary documentation, which was labelled Exhibit R1 (380 pgs.). Various maps, aerials and photographs were provided, to offer a visualization of the location and building characteristics of the subject Property.

[14] The Respondent provided a detailed explanation of the subject assessment [R1; p. 9].

[15] In support of the applied 6% cap. rate, the Respondent referenced the City's "2014 Suburban Office Capitalization Rate Study - A Quality" [R1; pg.27]. Five Suburban office sales were analysed with sale dates ranging from July 2012 to May 2013, and typical cap. rates ranging from 5.70% to 6.20%. The Respondent argued that the results readily supported the assessed 6% cap. rate.

[16] Four of the five sales were included in the MNP Study. The sale at 14505 Bannister Rd. SE was not included in the MNP Study, as it was deemed by MNP to be a portfolio transaction. The Respondent explained that the sale was included in the City Analysis, as discussions with the purchaser (Dundee REIT) confirmed that the sale price was negotiated on individual property merits, exclusive of the portfolio nature of the sale, and was therefore considered a valid sale.

[17] The Respondent provided a Response to the Complainant's Capitalization Rate Study [R1; Pgs. 29-31], wherein a number of contended flaws in the MNP study are presented. Of particular mention was a capital expense of \$1,200,000 for roof replacement that the Respondent argued should have been factored into the sale price for Sale #1 (1020 68 Ave. NE). Additionally, sale #5 at 808 55 Ave. NE, should, in the Respondent's opinion, be excluded from the MNP Study, because it was a non arms-length sale (it involved a vesting order which translated into a vendor take-back mortgage two months following the sale).

[18] Additionally, the Respondent referenced an ASR analysis and Sale Price Trend Line provided to test the City's cap. rate accuracy [R1; Pg. 32-33]. Testing the ASR results for the five sales, without time adjustments to the sale prices, yielded mean and median ASR's of 1.04. With time adjustment to the sale prices (+1.5% per Month), the mean and median ASR's were shown to be 0.96. Either way, the Respondent notes, the applied 6.0% cap. rate produces an accurate assessment.

[19] In further support of the assessed 6% cap. rate, the Respondent referenced the Colliers Q3, 2013 Suburban Office Capitalization Rate Report [R1; Pg.192], indicating cap. rates for A class suburban office properties in Calgary, ranging from 5.50% to 5.75%. A similar report from CBRE [R1; Pg. 189] reports a cap. rate range of 5.75% to 6.25% for the same time period. The Respondent argues that this data, although third party information, provides an industry perspective that supports the assessed rate.

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

[20] Considerable evidence and argument was provided by both parties, as the correct methodology for calculating capitalization rates. While the cap. rate is an integral component of the income approach valuation process, the cap. rate is nevertheless a single component among the various employed in the income capitalization function.

[21] Whether a Complainant disputes the accuracy of all or a single component of a valuation process (e.g. Cap. Rate within the Income Approach), the onus is on the Complainant to prove that their request results in a value that is a) more equitable, and/or b) reflective of a more accurate market value, than the original assessment.

[22] The Board gave consideration to the various Assessment to Sales Ratio studies provided by both parties. ASR studies can provide a valuable insight into the "value to market" relationships for groups of properties, but the Board was confounded by the vastly differing time adjustment results advanced by either party. The MNP study suggests negative time adjustments (i.e. Declining market) to adjust sale prices to the valuation date of July 1, 2013, while the City study contemplates positive time adjustments (increasing market) for the same time frame. The Board finds all analyses used limited data, so the Board placed little credibility in the time adjustment analyses from either party.

[23] The test of assessment accuracy for income producing properties, comes not in the testing of individual components, but rather through the relationship between the final assessed value, (resulting from the composite interaction of all the components), and the market place i.e. sales.

[24] The test for accuracy in support of the Complainant's requested value were various versions of ASR analyses which, based on questionable time adjustments, renders the analyses to be of limited value.

[25] The Board found some merit in the Respondent's critique of the MNP Capitalization Rate

Study, wherein a number of perceived errors in the data and analysis was revealed.

[26] The Board gave consideration to the two most current sales [R1; Pg. 27], each indicating cap. rates of 6.09%. These 2013 sales support the 6% assessed rate.

[27] Regarding the adjustment to the sale price (1020 68 Av. NE), the Board notes both the Complainant and Respondent considered the sale to be valid for the cap. rate study. The Complainant used \$29,000,000 (the land transfer price) and the Respondent used \$30,200,000 (reflecting \$1,200,000 to repair the roof [R1; pg.37]. In this Board's view, it is not speculative to conclude that a typical buyer and seller would take into account the cost of major repairs (or capital expenditures) at the time of negotiating a purchase price. Accordingly, the Board finds the Complainant's cap. rate analysis is not compelling evidence to support an adjustment to the assessed cap. rate.

[28] Having considered the evidence and argument as presented by both parties, the Board does not find the Complainant's evidence sufficiently compelling to warrant a variance in the assessment.

[29] The assessment is confirmed at 13,490,000.

DATED AT THE CITY OF CALGARY THIS 25 DAY OF August 2014.



Walter 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. C2	Complainant Rebuttal
3. 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 ADMINISTRATIVE USE**

Appeal Type	Property Type	Property Sub-Type	Issue	Sub-Issue
CARB	Commercial	Suburban Office	Capitalization Rate	