



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:

BANKERS HALL GP INC.
(as represented by Avison Young), COMPLAINANT

and

The City Of Calgary, RESPONDENT

before:

S. Kashuba, PRESIDING OFFICER
A. Wong, BOARD MEMBER
J. Pratt, 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:	068109305
LOCATION ADDRESS:	301 – 8 Avenue SW
FILE NUMBER:	76921
ASSESSMENT:	\$20,410,000

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

Appeared on behalf of the Complainant:

- C. Hartley Agent, Avison Young Property Tax Services

Appeared on behalf of the Respondent:

- H. Neumann Assessor

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

[1] No procedural or jurisdictional issues were raised. The Board continued to hear the merits of the complaint.

Property Description:

[2] The subject property, known as the Hollinsworth Building, is located at 301 – 8 Avenue SW. It was constructed in 1912, renovated in 1958, and integrated into the Bankers Hall building. The property has a net rentable area of 42,353 square feet over 6 floors, zero parking, and is not connected by a +15 pedway. Located in the downtown core (DT1), the City has assessed the subject as a Class A office building. The Hollinsworth Building shares a Provincial Heritage Property designation along with the Chamber of Commerce Building and the Lougheed Building. The current assessment is \$20,410,000.

Issues:

[3] Since the subject building, first constructed in 1912 with minimal upgrades in 1958, carries a provincial heritage designation, its class should be changed from Class A to Class B in order to more accurately reflect its market value.

Complainant's Requested Value: \$16,550,000

Board's Decision:

[4] It is the decision of the Board to confirm the assessment of the subject property for 2014 at \$20,410,000.

Position of the Parties

Complainant's Position:

[5] The subject property does not fit into the Class A building category as defined by the City. Known as the Hollinsworth Building, the subject has a small floor-plate, lacks parking, and is not connected by a +15 pedway.

[6] The subject property has an historic designation and should be valued in the same manner as are other buildings in the City which carry a provincial heritage designation.

[7] Having regard for the specific characteristics of the subject, it should be re-classified as a Class B building.

[8] To demonstrate that the subject should be classified as a Class B building, the Complainant presented 15 leases in the downtown core (Exhibit C-1, page 26). These comparables have leases which range from \$37.00 per square foot to \$16.00 per square foot. The weighted mean is \$24.97 while the Respondent applied a lease rate of \$31.00 per square foot in their Pro Forma (Exhibit C-1, page 11).

[9] The subject exhibits Class B characteristics similar to those properties presented in Exhibit C-1, page 40. In particular, it is noted that the Hollinsworth Building was constructed in 1912 with an area of only 42,353 square feet. The nine comparable Class B properties are also older buildings, ranging in age from 1911 to 1981.

[10] The City's Pro Forms for the foregoing Class B Roll Numbers carry a capitalization rate of 5.00%, while a capitalization rate of 5.75% is applied to the subject property.

[11] Three comparable properties were presented by the Complainant which carry a provincial heritage designation, the Loughheed Building (Exhibit C-1, pages 71 – 72), the Canada Life Assurance Building (Exhibit C-1, pages 72 – 73), and the Odd Fellow Temple/Calgary Chamber of Commerce (Exhibit C-1, pages 74 – 75).

[12] The Complainant presented six sales comparables for Class B properties which occurred in 2012 and 2013. The mean capitalization rate for all Class B comparables is 5.15% and 5.51% for Class B properties sold in 2013 (Exhibit C-1, page 79). This is supported by the Complainant's study of capitalization rates for the Class B inventory in which a capitalization of 5.75% is determined (Exhibit C-1, page 77).

[13] The City's estimate of a capitalization rate of 5.00% for Class B buildings is not consistent with previous CARB decisions. Instead of the backward-looking estimates of market rent, the City should use the forward looking market rent as proposed by the Complainant. This can be accomplished by using the valuation date of July 1, 2013 correctly (Exhibit C-1, pages 78 – 93) to arrive at correct capitalization rates.

[14] By utilizing the appropriate and forward-looking market rent estimates, provides for a capitalization rate of 5.5% for the subject property.

Respondent's Position:

[15] The Respondent's Pro Forma for the Hollinsworth Building is presented in Exhibit R-1, pages 13 – 14. A rental rate of \$31.00 per square foot is applied to 36,965 square feet of office space and \$16.00 per square foot to 5,388 square feet of retail space. Typical vacancy rates and operating costs are applied to arrive at the net operating income. The application of a capitalization rate of 5.75% results in an assessment value of \$20,410,000.

[16] Pursuant to a Request for Information, rental rates have been provided to the City for the subject property (Exhibit R-1, pages 15 – 39).

[17] In response to the Complainant's position that the subject should be changed from a Class A building to a Class B building, the Respondent notes that the subject is integrated into the Bankers Hall and one cannot identify the difference between the Hollinsworth building and the Class AA Bankers Hall.

[18] The subject has had more than one renovation, is completely integrated into the Class AA Bankers Hall East Tower, giving it all of the attributes of a Class A building.

[19] The economic performance of the subject confirms that it is correctly classified as a Class A building. The attached rent roll provided by Brookfield indicates that all the suites and tenant spaces of the Hollinsworth building are fully integrated into the same rent roll with Bankers Hall. In other words, Brookfield treats this property as a Class A property (Exhibit R-1, page 43).

[20] In response to the Complainant's position that the subject should be compared with other heritage sites that exhibit similar characteristics, is not possible. The comparables put forward by the Complainant are free standing and not associated with another building as is the subject property. As a result, the Complainant's selection of the Chamber of Commerce Building and the Loughheed Building as exhibiting characteristics similar to those found in the subject property cannot be supported.

[21] The Chamber of Commerce Building is a Class B building and is free standing. As for the Commerce Building, its sale price of October 23, 2012 at \$487.00 per square fully supports the assessment of the subject property. Further to this, the capitalization rate for this building is below 5% (Exhibit R-1, pages 73 – 74).

[22] In support of their submission that the subject is correctly classified as a Class A building with a capitalization rate of 5.75%, the Respondent presented a summary of 29 CARB decisions on downtown office Class A, B, and C buildings (Exhibit R-1, page 77). The 13 Class A buildings reflect a capitalization rate of 6.00%, the 13 Class B buildings have a capitalization rate of 5.00%, and the 4 Class C buildings have a capitalization rate of 5.50%.

[23] From these CARB decisions, it does not necessarily follow that Class B buildings should have a capitalization rate higher or lower than those applied to Class A buildings. After all, the sole purpose of capitalization rates is to establish a reasonable estimate of the market value of a particular property.

[24] As to the question of the application of typical NOI parameters, it is the Respondent's submission that these should be applied at a point closest to the sale date as reflected in a decreasing market and an increasing market (Exhibit R-1, pages 79 - 80). These charts demonstrate that the Respondent's methodology for applying the capitalization rate at a point closest to the sale date results in a tighter spread from the market capitalization rate than does the use of the Complainant's methodology (Exhibit R-1, pages 79 – 80).

[25] In calculating the capitalization rate, the Respondent allocates the closest valuation date parameters for any sale date.

[26] An analysis of 85 leases for 2014 in downtown DT1 & 8 indicates a weighted mean of \$31.20 per square foot (Exhibit R-1, page 88), while the subject is assessed at \$31.00 per square foot. Additional data is provided for seven Class B buildings, reflecting a mean of \$25.80 per square foot. These statistics validate the current assessment of the subject property.

[27] By way of conclusion, the Respondent presented two CARB decisions to support the assessment (Exhibit R-1, pages 98 – 117), a number of Class A and Class B equity comparables (Exhibit R-1, pages 121 – 122), Board Order MGB 145/07 (Exhibit R-1, pages 134 – 171), MGB Decision No. DL 019/10 (Exhibit R-1, pages 171 – 176), CARB decision 1331/2011-P (Exhibit R-1, pages 177 – 184), and CARB decision 1446-2012-P (Exhibit R-1, pages 185 – 190).

Complainant's Rebuttal Submission:

[28] The trends in capitalization rates utilized by the Respondent are incorrect. In support of this position, the Complainant provided two third-party reports, a Canadian Cap Rate Survey (Exhibit C-2, pages 3 – 5), and a Colliers International Canada Cap Rate Report (Exhibit C-2, pages 10 – 21).

[29] In the rebuttal statement of the Complainant, the purpose of these two reports was to establish that the most important leasing information for determining market rent at the time of sale would be the most recent leasing up to the sale date and any known future leasing in place.

[30] As regards the Respondent's use of photographs, the City incorrectly took photographs of Bankers Hall and presented these as being photographs of the Hollinsworth Building. As a result, this brings into question the submission made by the Respondent as to the quality and the current market value of the subject property.

Reasons for Board's Decision:

[31] The Board accepts that the subject is correctly classified as being in Class A. This classification is supported by the rent roll submitted to the Respondent by the Complainant, as well as by the leases which are currently in place.

[32] The Board places considerable weight upon the Respondent's Office Rental Analysis for Class A buildings in the downtown core. A summary of these rates supports the assessment of the subject property which sets the rental rate at \$31.00 per square foot.

[33] Further to rental rates, the Board accepts the data provided by the Respondent which presents rental rates for Class B buildings in the downtown sector of the City. These rental rates fall considerably below those garnered by Class A buildings and below the rental rates established for the subject as reflected in the Request for Information submitted to the Respondent.

[34] Although the Board does acknowledge that some of the photographs presented by the Respondent did not necessarily portray correctly the various physical features of the subject property, this in itself does not discredit the other information provided by the Respondent.

[35] In this regard, the Board accepts that the Hollinsworth Building is fully integrated with the Bankers Hall Building. Since Bankers Hall is classified as a Class AA building, this does have a residual and positive impact upon the market value of the Hollinsworth building.

[36] The Board accepts that although the original structure was constructed in 1912, the subject property has undergone considerable upgrades to ensure that it continues to be a Class A building and fully integrated with the newer Bankers Hall.

[37] As for the argument dealing with capitalization rates, the Board accepts the Respondent's argument that the City's methodology of applying the typical NOI parameters closest to the sale date does have the capacity to reflect the subject's current market value.

[38] The Board concludes that the Complainant was not able to establish that the subject property exhibits characteristics similar to other properties designated by the province as heritage sites. In other words, the Board accepts that each building designated by the province as a heritage site is unique, thereby making comparability extremely difficult, if not impossible. As a result, this made it difficult to establish that a heritage site, which was originally constructed some 100 years ago and recently renovated and integrated into a modern building, should receive a classification lower than a Class A.

[39] The Board places little weight upon the Complainant's argument that the subject property should be classified as a Class B building because the rental rates in the subject exceed those found in Class B buildings in the downtown core of the City.

[40] The Board finds that the physical characteristics found in the subject building are superior to the physical characteristics found in the nine comparables (Exhibit C-1, page 40) found in Class B buildings.

[41] The Board rejects the Complainant's argument that Class B buildings cannot carry capitalization rates that are lower than those found in Class A buildings (Exhibit C-1, page 77).

[42] In contrast, the Board places considerable weight upon the Respondent's submission that capitalization rates can vary so long as the determination of the net operating income applied to a capitalization rate results in the establishment of an acceptable current market value.

[43] In conclusion, the evidence presented by the Respondent is sufficiently compelling to lead the Board to conclude that the assessment of the subject property is fair and correct and should not be disturbed.

DATED AT THE CITY OF CALGARY THIS 3 DAY OF SEPTEMBER 2014.

per 

S. Kashuba

Presiding Officer

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

NO.	ITEM
1. Exhibit C-1	Complainant Disclosure
2. Exhibit R-1	Respondent Disclosure
3. Exhibit C-2	Complainant's Rebuttal Submission

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.*