

**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(4).

between:

Altus Group Ltd., COMPLAINANT

and

The City of Calgary, RESPONDENT

before:

L. Lundgren, PRESIDING OFFICER

P. Charuk, MEMBER

R. Deschaine, 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 2010 Assessment Roll as follows:

ROLL NUMBER: 757119003

LOCATION ADDRESS: 63 SUNPARK PZ SE

HEARING NUMBER: 59080

ASSESSMENT: \$54,650,000

This complaint was heard on the 28th day of June, 2010 at the office of the Assessment Review Board located at 4th Floor, 1212 – 31 Avenue NE, Calgary, Alberta, Boardroom 2.

Appeared on behalf of the Complainant:

- *D. Chabot*

Appeared on behalf of the Respondent:

- *A. Jerome*

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

The Complainant submitted ARB 0505/2010-P which is a decision issued June 16th, 2010 respecting the vacancy allowance for suburban office buildings in south east Calgary. The decision is to increase the vacancy allowance from 6% used to prepare the assessment to 9.5%. The Complainant advises that one of the issues in this complaint is the vacancy allowance and the evidence and argument are substantially the same, therefore, the Complainant is requesting the same decision.

The Respondent is aware of ARB 0505/2010-P and is not making a recommendation.

The Board determined that it will hear all of the evidence and argument related to the issue of vacancy allowance for suburban office buildings in the SE quadrant.

Property Description:

The subject property is a 210,684 square foot, A class, suburban office building located at 63 Sunpark PZ SE. This complaint is filed on the basis that the vacancy allowance of 6% and the rental rate of \$21 per square foot are incorrect.

Issues:

1. What is the correct vacancy allowance for suburban office buildings in the SE quadrant of the city?
2. What is the correct rental rate for office space in an A Class building in the SE quadrant?

Complainant's Requested Value: \$46,060,000

Board's Decision in Respect to Each Matter or Issue:

1. What is the correct vacancy allowance for suburban office buildings in the SE quadrant of the city?

The Complainant submitted that the 2010 CITY OF CALGARY SOUTHEAST SUBURBAN OFFICE VACANCY STUDY (vacancy rate study) presented by the city to justify its use of a 6% vacancy allowance is flawed, and when corrections are made to the study it supports the requested vacancy allowance rate of 9.5%. The Complainant identified several errors in the city's vacancy study with respect to the vacancy rates for individual properties, omissions of properties with vacant space, and property types which in the opinion of the Complainant should not be included. The Complainant

revised the City of Calgary's vacancy rate study using all of the properties in the study with corrected vacancy rates and vacant spaces for individual properties which resulted in an average vacancy rate of 9.25%.

The Complainant submitted its own SUBURBAN OFFICE VACANCY STUDY FOR THE SOUTH which showed an average vacancy rate of 14.7%. The Complainant did not separate the southeast properties from the southwest properties because the Respondent used the same vacancy allowance in both quadrants. The study is based on 55 buildings and the medical/dental offices are not included because they tend to be occupied for long periods of time and have very low vacancy rates.

The Complainant also supported its request for a 9.5% vacancy allowance by presenting third party reports on vacancy rates in Q2 2009 in the SE quadrant: Avison Young 9.5%, Colliers 8.4%, and CBRE 7.7%. The trend in Q3 2009 is for higher vacancy rates, with Avison Young reporting 10.2% and CBRE reporting 7.7%.

In conclusion, the Complainant is requesting the Board to increase the vacancy allowance to 9.5% based on the above evidence.

The Respondent asserts that its vacancy study provides a more typical vacancy rate than the Complainant's study because it has 92 properties versus 55 properties, and it includes medical/dental offices. Medical/dental offices are one of four classes of office buildings listed in the Office Building Valuation Guide, and are properly included in the vacancy study. The Respondent conceded that vacancy rates tend to be lower in medical/dental offices.

The Respondent found errors in the Complainant's study too. For example, the Complainant included 90,021 square feet which was 100% vacant because the construction was not completed until October 2009. The Complainant did not perform a separate vacancy rate study for the SE quadrant of the city. As well, the Respondent is critical of the use of vacancy rates published by third parties because it is not known how the properties are stratified and how many properties were used.

In conclusion, the Respondent requests the Board to confirm the 6% vacancy allowance.

2. What is the correct rental rate for office space in an A Class building in the SE quadrant?

The Complainant presented nine lease comparables of non-medical space which have a median rental rate of \$20 per square foot. The rents in Sunpark indicate the rates between April and August of 2009 were between \$17 and \$19 psf. The subject should be assessed at \$18 psf.

The Respondent advised that six of the Complainant's lease comparables are from B Class buildings, and are not similar to the subject A Class building.

The Respondent presented ten lease comparables of A Class buildings which rents range from \$21 to \$27 per square foot. The four comparables in the same location, Sunpark PZ SE, as the subject leased for \$26.50 per square foot.

In conclusion, the Respondent requests the Board to confirm the rental rate of \$21 per square foot used to prepare the property assessment.

Board's Decision:

The Board finds the 2010 CITY OF CALGARY SOUTHEAST SUBURBAN OFFICE VACANCY STUDY revised by the Complainant and corrected for errors in the vacancy rates for individual properties to be the best evidence of a vacancy rate to be applied to southeast office buildings. The revised study is based on a large sample which includes all types of office buildings and it is limited to the southeast quadrant of the city. The Board places no weight on the third party reports of vacancy rates because there is no information provided respecting the stratification of properties or the accuracy of the reports. Finally, the Board considers the vacancy rates as of the valuation date to be the most relevant. Vacancy rates in the third and fourth quarters of the year reveal trends but are less helpful in establishing correct vacancy rates to be applied. Accordingly, the correct vacancy allowance to be applied to southeast office buildings is 9.5%.

The Board finds that the best indication of a typical lease rate for Class A suburban office buildings in the southeast quadrant is the lease comparable evidence put forth by the Respondent. The annual rental rates range from \$21 psf to \$27 psf, with the Sunpark PZ SE rents at \$26.50 psf. The subject is assessed using a rental rate of \$21 psf which is substantially lower than rents in the immediate area. The rental rate of \$21psf is confirmed.

Accordingly, the property assessment is reduced to \$51,390,000.

MAILED FROM THE CITY OF CALGARY THIS 9 DAY OF July 2010.



L. Lundgren
Presiding Officer

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.*