

**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-26.1, Section 460(4).

between:

Colliers International Realty Advisors, COMPLAINANT

and

The City Of Calgary, RESPONDENT

before:

H. Kim, PRESIDING OFFICER

J. Joseph, MEMBER

D. Steele, 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:	067056390
LOCATION ADDRESS:	801 6 Ave SW
HEARING NUMBER:	58665
ASSESSMENT:	\$156,710,000

This complaint was heard on the 4th day of November, 2010 at the office of the Assessment Review Board located on the 3rd Floor, 1212 – 31 Avenue NE, Calgary, Alberta, Boardroom 11.

Property Description:

The subject complaint is of a 28 storey office building known as AMEC place, formerly known as Monenco Place. It was constructed in 1982 on the south west corner of 6th Avenue and 7th Street SW with a 15,900 SF floor plate and 391,715 SF of office space, 10,432 SF of main floor retail, 5,785 SF of upper level retail, 10,111 SF storage and 261 parking stalls on a 29,837 SF parcel of land.

It is located in the DT2 district of downtown Calgary and is classified as an A building. It is assessed on the income approach based on typical DT2 Class A assessment parameters of \$28/SF for office, \$21/SF for upper retail, \$24/SF for lower retail, and \$475/month for parking. The storage is assessed at \$12/SF but the typical rate is \$10/SF and the Respondent agreed that \$10/SF should be applied. 3% office vacancy, 8% retail and storage vacancy and operating costs of \$17.50/SF for office, \$18/SF for retail and \$5/SF for storage are applied and the resulting net operating income is capitalized at 7.5% to arrive at the assessment.

Issues:

The Complainant identified a number of issues on the Complaint form; however at the hearing the issues argued and considered by the Board were:

1. The subject is misclassified as an A building and assessed inequitably with similar buildings.
2. The rental rate for the offices should be decreased to \$24.50 from \$28.
3. The parking rate should be decreased to \$400/month from \$475/month
4. The vacancy rate should be increased to 15%.
5. The capitalization rate should be increased to 9%

Complainant's Requested Value:

\$39,180,000 revised to \$93,450,000 at the hearing.

Board's Decision in Respect of Each Matter or Issue:**Issue 1: Building Classification****Complainant's position:**

The subject is assessed as an A class building in DT2 at \$374.86/SF but other similar buildings are assessed as B class buildings at significantly lower assessments per SF. The Complainant requested that submissions with respect to characteristics that define building classes be carried forward from the previous hearing.

The Complainant presented photographs and a table of comparable and superior buildings to support his position that the subject is a B building. Generally B class buildings are assessed in the range of \$300/SF while A class buildings are closer to \$400/SF. One of the major determinants of building class is location. The subject is in DT2 which makes it an inferior location, and the other Class A buildings in DT2, such as Encor Place, Plaza 1000 and Plains

Midstream are much newer with better quality construction such as polished stone or curtainwall exteriors in comparison to the precast concrete exterior of the subject.

Name	Address	Assmt/SF	Building Area	Floor Plate	Parking Ratio	Floors	YOC	Parking stalls
Centrium Place	332 6 Ave SW	393.62	233,766	16,920	3,117	15	2007	75
BP Centre	240 4 Ave SW	390.74	660,129	24,000	2,908	31	1988	227
Encor Place	645 7 Ave SW	389.91	362,000	13,800	3,321	29	1988	109
Shell Centre	400 4 Ave SW	386.96	693,627	19,850	8,065	7	1977	86
AMEC Place	801 6 Ave SW	374.86	409,460	15,900	1,569	28	1982	261
Altius Centre	500 4 Ave SW	366.66	305,200	10,500	1,067	32	1974	286
Plains Midstream	607 8 Ave SW	357.11	245,873	20,372	3,235	12	2007	76
Plaza 1000	1000 7 Ave SW	346.30	160,033	16,453	567	10	2002	282
Shaw Court	630 3 Ave SW	303.18	288,341	25,050	1,502	12	1990	192
HP Tower	715 5 Ave SW	302.11	399,563	12,600	1,022	32	1974	391
444 7 Ave	444 7 Ave SW	299.33	250,000	27,000	5,208	10	1963/97	48
Life Plaza	734 7 Ave SW	291.88	236,257	14,068	2,386	19	1981	99
Fifth & Fifth	605 5 Ave SW	291.16	470,306	15,327	1,927	34	1980	244
McFarlane Tower	700 4 Ave SW	285.51	198,751	12,354	1,291	18	1979	154
Encana Place	150 9 Ave SW	282.98	417,833	14,453	7,884	30	1982	53

Fifth and Fifth is better located than the subject but is assessed as a B building. Encana Place is very similar to the subject but in a much better location, and is assessed nearly \$100/SF less than the subject. Assessment details for MacFarlane Tower and Canada Life Tower were presented to support the different assessment parameters applied to Class B buildings in DT2.

The Complainant noted that the actual year-end vacancy rate was higher than the 7% reported in the December rent roll. Three full floors had been vacated but had been leased for occupancy in 2010 and were therefore not being reported as vacant. The tenant was occupying other space at the time and the space should properly have been reported as vacant, resulting in a vacancy rate of over 18%.

Respondent's position:

The floor plate and total size of the subject is comparable to A class buildings. The Respondent referred to MGB order 145/07 p34 which stated that historically "AA and A class buildings have attracted high quality tenants needing large spaces over longer term leases." The April 2009 rent roll for the subject shows a number of full-floor and multiple-floor tenants including AMEC, BJ Services and Alberta Infrastructure, with long term leases. It is connected to the +15 system and has a bank on the main floor.

Building age is only one factor considered in the classification of a building. The subject is an A class building and is equitably assessed with other A class buildings in DT2.

Decision and Reasons:

The Board considered the evidence presented in the subject hearing as well as the submissions carried forward from the previous hearing and determined in CARB 2058/2010.

As in that decision, the Board agrees that the relative performance of a building in the market

place would best determine its classification. The Board noted that the subject attracted high quality tenants with larger space requirements and longer term leases, but noted that one of the tenants had vacated during the valuation year in favour of a newer building.

The Board found the most compelling evidence of the subject property's relative performance could be found in the CRESA vacancy statistics (p30-122, C8).

Head lease vacancy - %

Period	Subject	Average A	Average B
Q2 2007	0.00	0.49	0.94
Q4 2007	1.11	1.05	4.08
Q2 2008	3.23	1.48	4.80
Q4 2008	5.03	1.30	7.56
Q2 2009	5.03	1.88	8.73
Q4 2009	6.03	3.34	8.73

Comparing the subject over several quarters to the average for Class A and Class B buildings shows that with the exception of Q2 2007, the vacancy rate in the subject has been consistently higher than the average for Class A buildings, and closer to that expected in Class B buildings.

This analysis suggests the subject does not perform as a typical A building. While the Board agrees that the subject has the floor plate, total rentable area and +15 connection typical for an A class building, the age and performance of the property makes it more properly classed with other similar properties as a B class building within DT2.

Issue 2: Rental rate

Having found that the subject property should be classified as a B building, the presentations and argument with respect to office rental rates presented in a previous hearing and decided in CARB 2056/2010-P are applicable, and for the same reasons the Board finds the office rental rate for the subject, a B class building in DT2, should be \$24/SF. The Complainant presented assessment details for other B class buildings in DT2 to support requested retail rates.

The retail rate for upper and lower level retail should be \$16 and \$21/SF respectively based on what is achieved in the subject and the rates applied to other retail space in Class B buildings in DT2. The \$12/SF rate for storage should be reduced to the typical storage rate of \$10/SF.

Issue 3: Parking rate

The only evidence to support the lower parking rate requested was the rate applied to other Class B buildings. The \$450/month parking rates achieved in the subject property are closer to the \$475/month rate than the typical Class B rate of \$400. Accordingly, the Board concludes that the parking rate applied is appropriate for the subject property.

Issue 4: Vacancy rate

Sublease vacancy should not be included in the vacancy allowance for the purposes of calculating net operating income for valuation purposes, for the same reasons as detailed in CARB 2056/2010-P for the previous hearing. Other than a period of vacancy between tenants of a large block of space in the latter part of 2009, the actual vacancy of the subject is in the

range expected for B class buildings. Therefore the typical Class B vacancy allowance of 8% is appropriate.

Issue 4: Capitalization rate

The presentations and argument with respect to cap rates was the same as that presented in the previous hearing and detailed in CARB 2056/2010-P. In the absence of sales, the Board agrees it is reasonable to rely on industry market reports and is generally in agreement with the conclusion of previous Board decisions that in view of the market conditions and the high level of sublease vacancy at the valuation date, the selection of a cap rate at the lowest end of the reported range is not reasonable. The Board notes that the Respondent's rationale for selecting the lower end of the range of cap rates is not supported because the weighted average of the rents achieved in the occupied space in the subject property is \$18.75/SF, substantially lower than the \$24/SF typical market rent.

Nevertheless, in view of the size and floor plate of the subject and its connection by +15 to the other buildings in the central core, the Board is convinced that an 8% cap rate, at the low end of the range for B class buildings, is reasonable for the subject.

Board's Decision:

The complaint is allowed, in part, and the assessment reduced to \$117,890,000 based on \$24/SF office, \$16 and \$21/SF respectively for upper and lower level retail, \$10/SF for storage, 8% office vacancy, office operating costs of \$16/SF and retail operating costs of \$17/SF and 8% cap rate with all other parameters unchanged.

DATED AT THE CITY OF CALGARY THIS 22 DAY OF November 2010.


H. Kim

Presiding Officer

APPENDIX "A"**DOCUMENTS RECEIVED AND CONSIDERED BY THE BOARD:**

NO.	ITEM
C1	Complainant Form
C2	Complainant's submission
C3	Prior CARB decisions
C4	Prior CARB decisions
C5	Typical Market Rates Class B time adjusted
C6	Typical Vacancy Analysis

C7	Downtown Office Sales Evidence
C8	Market Change Evidence
C9	Downtown Photographs CARB 2010
C10	MGB Board Orders and Judicial Reviews Part 1
C11	MGB Board Orders and Judicial Reviews Part 2
R1	Respondent's submission
R2	Respondent's additional information
R3	MGB orders 045/09 and 145/07
R4	Judicial review of MGB 145/07
R5	Photograph of Grain Exchange Building
R6	Assessment Brief Additional Information

APPENDIX 'B'**ORAL REPRESENTATIONS****PERSON APPEARING CAPACITY**

Chris Hartley	Colliers International Realty Advisors, Complainant
Scott Meiklejohn	Colliers International Realty Advisors, Complainant
Walter Krynski	Assessor, City of Calgary, Respondent
Harry Neumann	Assessor, City of Calgary, Respondent

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.*