

**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), Revised Statutes of Alberta 2000 (the Act).

between:

***NORTHWEST PROPERTY CORP, COMPLAINANT,
as represented by Altus Group***

and

The City Of Calgary, RESPONDENT

before:

***Ted Helgeson, PRESIDING OFFICER
Yvette Nesry, MEMBER
Joe Massey, 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 2011 Assessment Roll as follows:

ROLL NUMBER: 060150307

LOCATION ADDRESS: 1620 29th Street N.W.

HEARING NUMBER: 64364

ASSESSMENT: 11, 710,000

This complaint was heard on Tuesday, the 28th of June, 2011 at the office of the Assessment Review Board located at Floor Number 3, 1212 – 31 Avenue NE, Calgary, Alberta, Boardroom 9.

Appeared on behalf of the Complainant:

- *D. Genereux and G. Worsely*

Appeared on behalf of the Respondent:

- *Magan Lau*

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

No procedural or jurisdiction matters were raised.

Property Description:

The subject property is the Foothills Professional Building located south of 16th Avenue N.W. in the community of St. Andrews Heights. Constructed in 1980, the subject is assessed as an "A2" class office building with no underground parking. The floor area of the subject property is 57,951 square feet.

Issues:

1. Has "over-stratification" resulted in the subject property been wrongly classified as "A2" quality when it should have been classified as "B" quality?
2. If the subject property is found to be of "B" quality, what is its correct and fair and equitable assessment?

Complainant's Requested Value: \$7,040,000

The Complainant's Position

The assessment of the subject property is too high as a result of incorrect classification. It has been classified as an "A2" class building when it should be a "B" class building. This is because the Respondent has over-stratified medical/office buildings. Comparisons indicate a rental rate of \$20 per square foot. The office rental rate of the subject should be no more than \$20 per square foot, and the vacancy and credit allowances should be no less than 8%. Assessment Review Board testimony from assessors suggest that office buildings have been classified based on their current rental rates. This basis for classification is incorrect for many reasons. Market rent and actual rent are variables when calculating net operating income, therefore property classification requires objective non-rent based criteria. Using a valuation conclusion as a standard for classification puts "the cart before the horse."

Basing a building class on its actual rent is analogous to finding comparables to support the sale

price of a house. The physical, tangible characteristics required to place a property in each quality assessment class have not been disclosed by the Respondent. The correct first step in the analysis of market data is to classify all office buildings by type and function. Elements of comparison include risk level, land to building ratios, overall quality, age, economic life, amenities, utility, and physical condition of the building. To be comparable, properties should have the same physical and locational characteristics, income streams with the same risk and stability characteristics, and similar capital recovery periods and methods of capital recovery. Typical units of comparison for office properties include price per square foot of gross building area, price per square foot of net rentable area, and price per square foot of usable area. Criteria for the classification of office buildings are age and obsolescence, desirability, location, accessibility, prestige, appearance, lobbies, elevators, corridors, interiors, tenant services, mechanical systems, management, and tenant mix.

Property classification and valuation parameters are to be constant, consistent and static. Assessment valuation parameters are not to be altered from one property to another within a class. Matters Relating to Assessment and Taxation Regulation 289/99 defines mass appraisal as *the process of preparing assessments for a group of properties using standard methods and common data and allowing for statistical testing*. It is argued that using actual rent does not reflect the requirement for using common data. Alberta Municipal Affairs and Housing Ministerial Order 248/07 states at page 82:

*Although stratification can increase the accuracy of the study significantly, analysts must guard against too many strata with too few samples for reliable analysis. **Once defined, the stratification methodology should remain the same from year to year to ensure consistency.***

Stratifying by actual rent requires a rent review each year on every property and that rent can vary from year to year which then contravene the requirement for consistency.

Detailed comparisons have been made of ten buildings similar to the subject property. The buildings range in size from 12,560 square feet to 125,238 square feet. They include *Countryman Square* at 2004 14th Street N.W. in Capital Hill, *Thornclyff Professional* at 5440 4th Street N.W. in Thornclyff, *Bridgeland Professional* at 1010 1st Avenue N.E. in Bridgeland, and *Bow River Professional* at 441 16th Avenue N.W. in Montgomery. Six of the ten properties, similar but superior to the subject, are *Sunridge Professional Centre* at 2675 36th Street N.E. in Sunridge, *Belmore Square* at 1001 Glenmore Trail S.W. in Belmore, 4715 8th Avenue in Forest Lawn, *Rockyview Health Centre II* at 1016 68th Avenue S.W., 51 Sunpark Drive in Sundance, and *South Calgary Health Centre* at 31 Sunpark Place S.E. in Sundance. These ten properties indicate a median assessed value of \$198 per square foot, with an average of \$189 per square foot, well under the assessed value of the subject. The overall assessment of the subject property should not exceed \$200 per square foot.

The assessed rent for the subject property is incorrect when compared to market leases of other comparable "A" class buildings. An analysis of ten leases in the northwest indicate that buildings in the northwest can be expected to lease at about \$20 per square foot. The analysis revealed an average rate of \$17.86 per square foot, a median of \$18 per square foot, and a weighted average of \$15.89. A rental rate of \$16.00 per square foot is appropriate for the subject property.

The Respondent's Position

The subject property is an "A2" quality medical/dental suburban office building. The Complainant has provided nine equity comparables that range from "B" to "A" quality. Of these comparables only four are located in the northwest. The Complainant's equity comparables differ from the subject property because the subject is an "A2" quality medical dental office, and the Complainant's equity comparables are not. Similarly, the Complainant's lease comparables range from "A" class to "B" class space in both the northwest and northeast quadrants.

Two properties, the Northland Professional Centre at 4600 Crowchild Trail N.W., and 4935 40th Avenue N.W., both constructed in 1978, are, like the subject property, of "A2" quality, and both have been assessed based on the same market rental rate as the subject, i.e., \$22 per square foot. Thirty-nine leases, which commenced between July, 2009 and July, 2010, three in the subject property, five in 4600 Crowchild Trail N.W. and thirty-one in 4935 40th Avenue N.W., show a median value per square foot of \$23, and a weighted mean of \$23.02. This amply supports the rental rate of \$22 per square foot. The assessed value is correct, and fair and equitable, and should be confirmed.

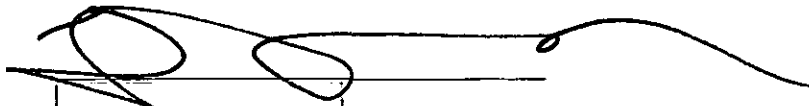
Board's Decision in Respect of Each Matter or Issue:

Had the Complainant demonstrated how alleged over-stratification on the part of the Respondent resulted in the subject property being improperly classified as "A2" quality, and had then shown how stratification, properly done, would result in the subject being classified as "B" quality, the Board might have been able to answer the first issue in the affirmative. A plethora of information about stratification does not in and of itself establish that the subject property has been classified incorrectly. In the result, there was nothing to support an affirmative answer to the first issue, and it is therefore not necessary to address the second issue. The Board found the evidence of the Respondent persuasive, both with respect to the classification of the building and its assessment.

Board's Decision:

The assessment is confirmed at 11,710,000.

DATED AT THE CITY OF CALGARY THIS 2 DAY OF August 2011.



Presiding Officer

Exhibits:

C-1: Complainant's written argument

R-1: Respondent's assessment brief

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.*