

**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:

The Business Depot Ltd. (as represented by Altus Group Limited), COMPLAINANT

and

The City Of Calgary, RESPONDENT

before:

***Board Chair, J. Zezulka
Board Member, B. Bickford
Board Member, E. Reuther***

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 2012 Assessment Roll as follows:

ROLL NUMBER: 101046902

LOCATION ADDRESS: 321 - 61 Avenue SW

HEARING NUMBER: 68047

ASSESSMENT: \$10,520,000

This complaint was heard on the 8th day of August, 2012, at the office of the Assessment Review Board located at Floor Number Three, 1212 – 31 Avenue NE, Calgary, Alberta, Boardroom Eight.

Appeared on behalf of the Complainant:

- A. Izzard
- B. Neeson

Appeared on behalf of the Respondent:

- R. Ford

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

- (1) There were no procedural or jurisdictional matters raised by either party.

Property Description:

- (2) The subject is located in Chinook Station, a Community class retail mall located in the Manchester Industrial district of SW Calgary. The assessable building area is 46,000 s.f. The mall consists of two 23,000 s.f. box store tenants. The date of construction is 1996. The site area is 3.23 acres.

Issues / Appeal Objectives

- (3) The property is currently being assessed using the income approach. The Complainant does not dispute the valuation method. The only issue in this matter is the capitalization rate used by the City. In the capitalization calculations, the Respondent applies a capitalization rate of 7.25 per cent. The Complainant does not dispute the rents, vacancy allowance, vacancy space shortfall, or non-recoverable allowance applied by the City. However, it is the Complainant's position that the capitalization rate applied should be 7.75 per cent.

Complainant's Requested Value: \$9,840,000

Evidence / Argument

- (4) The Complainant submitted a number of documents relative to capitalization rates. Document C-1 contained the argument specific to the subject. Exhibit C-2 is the 2012 general capitalization rate analysis and argument for neighbourhood shopping centres. The C-2 document is an extensive and thorough analysis that concluded that 7.75 per cent is the appropriate capitalization rate for valuing community and neighbourhood shopping centres.

- (5) The Complainant's study centered on seven sales. These are as follows;
- a. Pacific Place Mall; 999-36 Street NE, sold in May, 2011
 - b. Sunridge Sears Centre; 3320 Sunridge Way NE., sold in January, 2011
 - c. Calgary East Retail Center; 2929 – Sunridge Way NE, sold in December, 2009
 - d. Braeside Shopping Centre; 1919 – Southland Drive SW., sold in December, 2009
 - e. Cranston Market; 356 – Cranston Road SE., sold in October, 2009
 - f. McKnight Village Mall; 5220 – Falsbridge Gate NE., sold in May, 2009
 - g. Chinook Station Office Depot; 306 – Glenmore Trail SW., sold in January, 2009

(6) The Complainant submitted Realnet property reports to verify the sales details, and actual rent rolls or Assessment Request for Information (ARFI) forms to substantiate the rents adopted in the analysis.

(7) There were two methods of analysis employed. Method I used the assessed rent as employed by the City of Calgary Assessment Business Unit to analyse each of the seven properties. This method produced a range of capitalization rates from 6.38 per cent for the Cranston Market, to 8.89 per cent for the Calgary East Retail Centre. The mean capitalization rate was 7.69 per cent.

(8) Method II used the same seven transactions, but employed typical market rents, using the Alberta Assessors Association Valuation Guide (AAAVG) definition of "Typical market rents". According to the Guide, the best source of market rents is derived from "actual leases signed on or around the valuation date". By method II, capitalization rates ranged from 7.34 per cent for Cranston Market, to 8.65 per cent for Chinook Station Office Depot. The mean capitalization rate was 7.80 per cent, and the median was 7.71 per cent.

(9) The Respondent produced a capitalization rate study that contained six transactions, as follows;

- a. Cranston Market; 356 – Cranston Road SE.
- b. Braeside Shopping Centre; 1919 – Southland Drive SW
- c. Calgary East Retail Centre; 2929 – Sunridge Way NE
- d. 400 & 1200 163 Quarry Park Blvd. SE
- e. Sunridge Sears Centre; 3320 – Sunridge Way NE.
- f. Pacific Place Mall; 999 – 36 Street NE

(10) Five of the comparables used by the Respondent are common to the Complainant. All of the Respondents comparable transactions took place within the 24 month "time window" that the City has adopted as being appropriate for capitalization rate analysis. For that reason, the Respondents analysis did not include two of the sales used by the Complainant, being McKnight Village Mall and Chinook Station Office Depot. The Respondent took the position that the two 2009 transactions used by the Complainant are invalid for analysis purposes because they occurred outside of the 24 month time frame.

(11) The Respondent argued that the Complainant's treatment of some of the comparables was inconsistent, because some of the centres are classified as "strip" centres rather than "neighbourhood" centres, and there should have been a rental rate adjustment in the analysis to account for the different classes.

(12) The Respondent's analysis involved the adoption of typical or assessed rents, rather than typical market rents. However, the Board notes that in some cases, the rents used in the City's capitalization rate analysis do not correspond to the rents used in the preparation of the actual assessment. For example, in the analysis of Cranston Market, the net operating income used in the preparation of the assessment was \$1,391,284. but the net income used in the capitalization rate analysis was \$1,691,434. The difference is considered significant by this Board. Similarly, the net income used in the assessment of Braeside Shopping Centre was \$1,157,940, but the amount used in the capitalization rate analysis was \$1,084, 151.

(13) The City's analysis produced a range of capitalization rates from 5.29 to 8.85 per cent. The low was reflected by Cranston Market, and the high was produced by Calgary East Retail

Centre. The average of the six was 6.71 per cent, and the median was 6.77 per cent. Only one comparable reflected a capitalization rate higher than the 7.25 per cent rate being used by the City.

(14) In support of their capitalization rate conclusion, the Respondent submitted the Assessment to Sales Ratios (ASR) produced when the capitalized income based on the 7.25 per cent rate is compared to the time adjusted selling price of the property. The ASR's produced range from 0.76 to 1.10, with a median of 0.93 and an average of 0.92.

(15) The Complainant argued that the time adjustment used by the City is faulty, resulting in a faulty capitalization rate conclusion. However, the Complainant offered little evidential data to support this contention.

(16) The Complainant argued that one of the transactions used by the Respondent, at 400 & 1200 Quarry Park Blvd. SE., could not be used as a valid comparable because the transaction was complicated, and was affected by a number of extraneous factors. For example, the property contained two buildings, including the shopping centre, and an office building. The "package" also included development approval for a hotel development which included extra land. In addition, the vendor was also the developer, selling agent, and property manager.

(17) The Board finds it interesting that the Complainant's Method I, and the City's analysis are both based on assessed incomes. Yet, the Potential Gross Incomes between the two are different in many instances. Neither party could offer any plausible explanation.

Board's Findings

(18) There are no statutory or legislative requirements that limit the time frame for an analysis to a certain time period. As such, the Board finds no valid reason for excluding the Complainant's two 2009 transactions from the capitalization rate analysis.

(19) There are too many extraneous influences affecting the Quarry Park transaction for an analysis to produce any reliable results. In the Board's opinion, this transaction should be excluded from any analysis.

(20) The Board does not agree with the Respondent's position that there should have been a rental adjustment in the analysis because the classification of some of the centres had changed. The market makes no arbitrary rental adjustment for classification differences, and this Board will not either.

(21) The Board finds that the Complainant's Method II analysis, which is based on typical market rents rather than the assessed rents, most realistically reflects actual market reaction, and is therefore the most credible.

(22) The Board finds that the discrepancy between the rents used by the City in the capitalization rate analysis, and the rents used in the actual assessment for Cranston Market and Braeside Shopping Centre causes some concern as to the accuracy of at least one of the sets of conclusions ;i.e. either the capitalization study results are faulty, or the assessments are based on incorrect information. If these properties as well as the Quarry Park transaction are excluded from the City's analysis, the average Capitalization rate reflected is 7.47 per cent.

(23) If the City's three remaining transactions, and all of the Complainant's Method I and Method II results are included, the average capitalization rate reflected is 7.70 per cent. The overall median is 7.71 per cent. These results add support to the Complainant's Method II results.

Board's Decision

(24) The most reliable information and supporting documentation that the Board could rely upon was submitted by the Complainant. The Board finds that the appropriate capitalization rate should be 7.75 per cent.

(25) The capitalization calculations are amended to reflect a capitalization rate of 7.75 per cent, and the assessment is reduced to \$9,840,000.

DATED AT THE CITY OF CALGARY THIS 24 DAY OF September, 2012.



Jerry Zezulka
Presiding Officer

**DOCUMENTS PRESENTED AT THE HEARING
AND CONSIDERED BY THE BOARD:**

NO.	ITEM
1. C1;	Evidence submission of the Complainant
2. C2;	2012 Neighborhood-Community Shopping Centre Capitalization Rate study of the Complainant
3. C3;	Complainant Rebuttal Submission to the Respondent,s Capitalization Rate Study
4.	Rebuttal Submission of the Complainant
5. R1	Evidence Submission of the 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.*

For MGB Administrative Use Only

Decision No. 1404/2012 - P			Roll No. 101046902	
<u>Subject</u>	<u>Type</u>	<u>Issue</u>	<u>Detail</u>	<u>Issue</u>
CARB	Retail	Income approach	Capitalization rate	N/A