



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:

***Calgary Co-operative Association Limited (as represented by Altus Group),
COMPLAINANT***

and

The City Of Calgary, RESPONDENT

before:

***Board Chair, J. Zezulka
Board Member, M. E. Bruton
Board Member, B. Jerchel***

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: 757100508

LOCATION ADDRESS: 250 Shawville Blvd. SE

FILE NUMBER: 74521

ASSESSMENT: \$35,400,000

This complaint was heard on the 18th day of June 2014 at the office of the Assessment Review Board located at Floor Number 4, 1212 – 31 Avenue NE, Calgary, Alberta, Boardroom 2.

Appeared on behalf of the Complainant:

- *B. Neeson, Agent, Altus Group*

Appeared on behalf of the Respondent:

- *S. Turner, Assessor, City of Calgary*
- *B. Thompson, Assessor, City of Calgary*

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 a multi tenant, retail node containing a Co-op supermarket and a number of Commercial Retail Units (CRU) in a development within the Shawnessy Power Centre in SE Calgary. The total development contains 103,296 square feet (s.f.). The buildings are mostly classified as "B" quality. One building is classified as A2 quality. Construction dates are 1991, 1997, and 2012. The assessable land area is 10.31 acres.

Issues:

- (3) The Complainant brought three issues before the Board.
- (4) The subject is currently assessed using the income approach. In the capitalization calculations, the City has adopted a capitalization rate of 6.00 per cent. The Complainant contends that a rate of 6.5 per cent is more appropriate.
- (5) The assessed rental rate for space in the 2,501 to 6,000 s.f. CRU space is \$30.00 for this particular property. The Complainant is seeking a reduction in the rental rate to \$28.00 per s.f.
- (6) The assessed rental rate for space in the supermarket space is \$15.00 per s.f. for this particular property. The Complainant is seeking a reduction in the rental rate to \$13.00 per s.f.

Complainant's Requested Value: \$30,410,000

Board's Decision:

- (7) The assessment is reduced to \$32,940,000.

Legislative Authority, Requirements and Considerations:

- (8) This Board derives its authority from section 460.1(2) of the Act.
- (9) Section 2 of Alberta Regulation 220/2004, being the Matters Relating to Assessment and Taxation Regulation (MRAT), states as follows;
"An assessment of property based on market value
(a) must be prepared using mass appraisal
(b) must be an estimate of the value of the fee simple estate in the property, and
(c) must reflect typical market conditions for properties similar to that property"
- (10) Section 467(3) of the Act states;
"An assessment review board must not alter any assessment that is fair and equitable, taking into consideration
(c) the assessments of similar property or businesses in the same municipality."
- (11) For purposes of this Complaint, there are no extraneous requirements or factors that require consideration.
- (12) The Board notes that the assessment initially decreased from \$35,202,500 in 2013, to \$34,740,000 in 2014. An amended assessment brought the current assessment to \$35,400,000.

Position/Evidence of the Parties**Issue 1; Capitalization rate**

- (13) The Complainant presented a capitalization rate study of 213 pages. The study centres around four transactions that are summarized on page 27 of exhibit C-1, or page 17 of C-2.
- (14) All four of the transactions occurred in 2012. All four properties are located in the Crowfoot Power centre in north west Calgary. The four properties are;
- 20/60 Crowfoot Crescent
 - 140 Crowfoot Crescent
 - 850 Crowfoot Crescent (Community Natural building)
 - 155 Crowfoot Way (Harper's Tire / Enterprise Car Rental)
- (15) In testimony the Complainant stated that the methodology used in the analysis employed the actual selling price, the City Assessment Department's typical rents that were effective on July 1, 2012, and typical vacancies, and non-recoverable expenses that were in effect at that time. The study produced a range in rates from 5.13 to 8.60 per cent. The mean is 6.63 per cent, and the median is 6.41 per cent. The methodology, and the inputs used, were not disputed by the Respondent.
- (16) The Complainant also submitted a fifth property transaction that was labelled as "Investment Grade Market Indicator". The property produced a capitalization rate of 6.55 per cent. Because the property was not in a power centre, it was not included in the analysis, but was presented as a market indicator to support the results.
- (17) The Respondent's capitalization rate study contains two comparables -- 20/60 Crowfoot Crescent, and 140 Crowfoot Crescent, both of which are contained in the Complainant's study. The methodology and inputs used are the same as the Complainant's. The results -- 6.78 and 5.13 per cent -- are the same for both parties. The median produced by the two indices produced

a median of 5.96 per cent, which the City rounded to 6.00 per cent.

(18) The City objected to the other two transactions used by the Complainant.

(19) It was the City's position that the Community Natural foods property at 850 - Crowfoot Crescent was vacant at the time of the sale and therefore did not exhibit any rent from which a capitalization rate could be derived.

(20) The Harper's Tire / Enterprise property is the former Village Honda auto dealership property. As far as this property is concerned, the City maintains that the transaction was non-arms length because of a relationship between the two parties. Corporate searches submitted in evidence revealed that the signing officer for the vendor company, and the signing officer for the purchasing company are both directors of a third company. The third company does not appear to be involved in the real estate transaction in question.

(21) The Harper's Tire property was also excluded from the City's evidence because it was the City's position that the property was a former auto dealership that was assessed by the cost approach because properties of this type rarely sell or lease, and therefore no rent was available for a capitalization rate analysis.

(22) Finally, it was argued that although the Harper's Tire transaction was finalized in 2012, it was actually negotiated in 2010. That assertion was not disputed by the Complainant.

Issue 2; CRU 2,501 to 6,000 s.f.

(23) The Complainant is requesting a rent reduction from the \$30.00 assessed rent, to \$28.00 per s.f. In support of the request, the Complainant submitted 14 lease comparables, (page 32 of C-1). The rent range is from \$20.00 to \$32.95 per s.f.. The average and median is \$26.35 and \$28.00 per s.f. respectively. All of the leases are from within the Shawnessy Power Centre. Lease start dates are from March, 2010 to February, 2012.

(24) The Respondent presented nine leases from the Shawnessy Power Centre, that produced a range of rents from \$20.00 to \$32.95 per s.f. (page 133 of R-1). The median of the range is \$30.00, hence the City's assessed rent of \$30.00.

Issue 3; Supermarket

(25) At this stage, it is pointed out again that the majority of the subject property, including the supermarket, are classified as "B" class buildings.

(26) The Complainant is requesting a rent reduction from the \$15.00 assessed rent, to \$13.00 per s.f. In support of the request, the Complainant submitted the City's 2014 Supermarket lease analysis for "A", "B", and "C" quality supermarkets.

(27) There are four properties in the "A" class category. Lease rates range from \$7.00 to \$26.45 per s.f. The mean and median are \$15.86 and \$15.00 per s.f.. The City's assessed rate is \$15.00 per s.f.

(28) There are four properties in the "B" class category. Lease rates range from \$12.50 to \$17.00 per s.f. The mean and median are \$14.20 and \$13.50 per s.f.. The City's assessed rate for each of the four comparables in the analysis is \$13.00 per s.f.

(29) The Complainant went on to present some detailed information on each of the "B" quality supermarkets contained in the City's analysis. The Complainant observed that, based on

the photographs and site plans submitted, there did not appear to be any significant difference between the subject, and any of the "B" quality supermarkets. This observation was not contested by the Respondent.

(30) The Complainant also pointed out that the Canada Safeway at 70 Shawville Boulevard is assessed using a \$13.00 per s.f. rental rate. That property is essentially across 162 Avenue from the subject.

(31) The Respondent pointed out that although the subject is shown as a "B" quality building in the Assessment Information Supplement, it should be assessed as an "A" quality building. The reason, according to the Respondent, is that all supermarkets located within Power Centres are assessed as "A" quality properties. The chief reason, according to the Respondent, is because of the marketing advantage that a supermarket gains due to the drawing power of the other Power Center tenants.

(32) The Respondent's "A" quality comparables include the following;

- 400, 163 Quarry Park Blvd.E. with a lease rate of \$26.45 per s.f.
- 19369 Sheriff King Street Sw., with a lease rate of \$7.00 per s.f.
- 5551R Richmond Road SW., with a lease rate of \$15.00 per s.f.
- 1221 Canyon Meadows Drive SW, with a lease rate of \$15.00 per s.f.

Findings and Reasons for Decision:

Issue 1; Capitalization Rate

(33) The Board does not accept the Respondent's position regarding the Community Natural Foods property in the Complainant's capitalization rate study.. Simply because there is no actual rent in place does not negate the validity of this comparable for the purpose of estimating a capitalization rate. The purpose of establishing a capitalization rate is to estimate the fee simple interest in a property. That process requires the use of typical, or market level, rents in the analysis. If actual rents are used, the result could be a representation of the value of the lessor's interest, but not necessarily the fee simple estate. That would violate Part 1, section 2(b) of MRAT. That is the primary reason why typical rents prevailing at the time of the sale are adopted, and the actual rents in place are disregarded. The same principle should hold true whether there is no rent, or an actual rent that is disregarded.

(34) As far as the arms length nature of the Harper's Tire building is concerned, the Board found no compelling or conclusive evidence to indicate that it was not an arms length transaction. The Board recognizes the fact that the two parties are connected by virtue of common directorship in a third company. However, there is no evidence to suggest that the purchase price of the property in question was affected by this common directorship.

(35) Notwithstanding the Respondent's position relative to the negotiation date of the Harper's Tire transaction, there is no written evidence to indicate that the sale was actually negotiated two years prior. The transfer document is dated June 22, 2012, and the price indicated on the Affidavit is the same as the price used in the analysis. The Board accepts the 2012 acquisition date as being the correct date.

(36) The Board also recognizes that the Harper's Tire transaction involved two properties and the \$4,100,000 stated price is actually a price allocation and should be accorded the least

amount of weight in the final analysis.

(37) Although the Board accepts the Harper's Tire transaction as a valid comparable, the capitalization rate analysis produced a result that is a full 262 basis points (46 per cent) removed from the median of the three remaining indicators. In the view of this Board, an outlier of that magnitude should either be removed from the analysis, or accorded less weight. The mean and median of the remaining three are 5.98 and 6.03 per cent. The Board accepts the Respondent's 6.0 per cent capitalization rate.

Issue 2; CRU 2,501 to 6,000 s.f

(38) During testimony it was revealed that the City draws rent information from two sources. These were outlined in testimony as follows;

Site specific, or Centre specific base

CRU space up to 1,000 s.f.

CRU space 1,001 to 2,500 s.f.

CRU space 2,501 to 6,000 s.f.

CRU space 6,001 to 14,000 s.f.

Banks, restaurants, fast food outlets

City wide base

Junior Big Box - 14,000 to 40,000 s.f

Big Box stores- 40,001 to 80,000 s.f.

Big Box - 80,001 s.f. plus

Super markets

The chief reason was given as the availability of data. Where there is an adequate sampling available, the City uses the site or centre specific rents. Where an adequate data base does not exist, the City expands the data base to include City wide properties.

(39) For issue 2,(CRU 2,501 to 6,000 s.f.) the Board finds that the Respondent's nine comparable leases are more current than the Complainant's 14 leases. The Board also finds that, based on the sample base in other space categories, nine is a sufficient number upon which to base a valid conclusion for mass appraisal purposes. On this issue, the Board finds for the Respondent.

Issue 3; supermarket

(40) For the supermarket category, this Board has difficulty with the rationale for the Respondent's approach. In the Board's opinion, supermarkets are destination oriented retail outlets that, except in exceptional circumstances, neither benefit or suffer from their surroundings. Simply put, people go to a supermarket to buy groceries when they need groceries. Typically, they choose the most convenient supermarket, and it doesn't matter what type of other store is nearby, or not nearby.

(41) This Board has difficulty rationalizing a \$2.00 per s.f. difference between the assessment of the subject, and the assessment of the Canada Safeway store at 70 Shawville Boulevard, which is essentially across the street from the subject.

(42) The board finds that the Complainant's supermarket lease evidence to be compelling enough to warrant a reduction in the supermarket assessed rent from \$15.00 to \$13.00 per s.f.

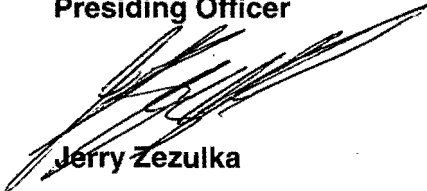
(43) The assessment is reduced and truncated to \$32,940,000.

DATED AT THE CITY OF CALGARY THIS

31

DAY OF July, 2014.

Presiding Officer



Jerry Zezulka

APPENDIX "A"

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

| NO. | ITEM |
|-----|-------------------------------------------------------------------------------------------------------------------------|
| 1. | C1 Complainant Disclosure |
| 2. | C2 Power Centre 2014 Capitalization Rate Analysis (cross referenced to file 75676) |
| 3. | C3 2014 Power Centre Pair Responses (cross referenced to file 75676) |
| 4. | C4 Complainant's Rebuttal Submission (cross referenced to file 75676) |
| 5. | C5 2014 Retail Anchor Analysis (cross referenced to file 75552) |
| 6. | C6 2014 Retail Anchor Analysis, calculating typical rent for space over 80,000 s.f. (cross referenced to file 75552) |
| 7. | R1 Respondent Disclosure |

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.

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| Decision No. CARB 75521P/2014 | | | Roll No. 757100508 | |
| <u>Subject</u> | <u>Type</u> | <u>Issue</u> | <u>Detail</u> | <u>Issue</u> |
| CARB | Power Centre retail | Market Value | Income Approach | Rental Rate & cap. rate |