



## 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:

**1207 & 1215 13<sup>TH</sup> STREET SE (WOODSTONE BUILDING) INC.**  
**(as represented by Avison Young Property Tax Services), COMPLAINANT**

and

**The City of Calgary, RESPONDENT**

before:

**H. Kim, PRESIDING OFFICER**  
**B. Jerchel, BOARD MEMBER**  
**J. Lam, BOARD 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 2014 Assessment Roll as follows:

<b>ROLL NUMBER:</b>	<b>200495158</b>
<b>LOCATION ADDRESS:</b>	<b>1215 13 ST SE</b>
<b>FILE NUMBER:</b>	<b>75937</b>
<b>ASSESSMENT:</b>	<b>\$8,720,000</b>

This complaint was heard on the 23<sup>rd</sup> day of June, 2014 at the office of the Assessment Review Board located at Floor Number 3, 1212 – 31 Avenue NE, Calgary, Alberta, Boardroom 10.

Appeared on behalf of the Complainant:

- *C. Hartley*
- *B. Peacock*

Appeared on behalf of the Respondent:

- *T. Johnson*

### **Property Description:**

[1] The subject property is an office building in the community of Inglewood, constructed in 1916. It is assessed on the income approach to value as Class A- at a rental rate of \$17/sf for 29,491 sf of office, and \$11/sf for 4,334 sf of office space below grade to arrive at the potential net income. Vacancy of 2%, operating costs of \$13.50/sf and nonrecoverables of 1% are deducted to arrive at a net operating income (NOI) of \$523,527 capitalized at 6.0% to arrive at a value of \$8,725,450 which, truncated, results in the assessment under complaint.

### **Issues:**

[2] The Complaint form identified a number of reasons for complaint; however at the hearing the only issues argued were whether a portion of the office space below grade should be assessed as storage, and whether the capitalization rate should be 6.25% instead of the 6.0% applied.

**Complainant's Requested Value: \$8,020,000**

### **Board's Decision:**

[3] The assessment is reduced to \$8,360,000.

### **Issue 1: Basement Office Area**

#### **Complainant's Position:**

[4] The Complainant presented the floor layout for the basement area from the lease offering document. It showed an area for lease outlined as Suite B001 with other areas labelled Sprinkler Room, Maintenance Room, and Boiler Room. Photographs of the various spaces were provided to show that only the area of Suite B001 should be assessed as office space below grade. The other spaces, which total 2,802 sf and are not accessible from the B001 space, is storage and should be assessed at the \$3/sf storage rate.

[5] The calculation for the requested assessment in the Complainant's submission was based on 4,334 sf at \$3/sf. At the hearing the Complainant noted that this was an error. The rentable area of B001 is 1,532 sf according to the rent roll, and it should remain at \$11/sf. The error was corrected and the requested assessment of \$7,830,000 in the documents was revised to \$8,020,000 at the hearing.

**Respondent's Position:**

[6] The Respondent's submission (Ex R1, p3) stated: "the City will admit that the original assessment is based on the entire below grade space being office, but only the portion B001 found on the Complainant's page 16 should be office (1497 sqft)." Nevertheless, in summary statements and argument, the Respondent requested that the assessment be confirmed.

**Board's Reasons for Decision:**

[7] The Board agrees that photographs submitted by the Complainant show that this area is storage and maintenance space, and is not listed in the spaces available for lease in the CBRE Office Space for Lease document included in both parties' submissions. While the lease document lists the area of Suite B001 as 1,497 sf the Board determined that the 1,532 sf rentable area shown on the rent roll was a more reliable value for the area of B001.

[8] Accordingly, the Board decided that 1,532 sf of the 4,334 sf basement level should be assessed at the below grade office rate of \$11/sf and the balance should be assessed at \$3/sf. This would reduce the NOI to \$501,779.

**Issue 2: Capitalization Rate****Complainant's Position:**

[9] The Complainant submitted that applying a 6.0% cap rate to A+ and A- buildings is contrary to board order MGB140/01 which states that superior properties should have lower capitalization rates than inferior properties as capitalization rates are, in part a function of risk. The board order also stated that for every class of properties there is a range of values for market rent and that it is inappropriate to arbitrarily use a single rate for a class of properties.

[10] The Respondent's method of calculating capitalization rates utilizes backward looking estimates of market rent and typical income for transactions occurring in the latter half of a given year. The cap rate study analyzes a sale occurring in fall of 2013 using 2013 income parameters, which is based on information collected in the year prior to July 2013. This means that a sale in November 2013 would be analyzed using rental rates from as early as July 2012, 17 months previous to the date of sale. The Complainant contends that sales should be analyzed using income parameters that are relevant to the time period in which the sale occurred. If the 2014 income parameters were applied to the November 2013 sale, they would have been derived using leases from July 2013 to July 2014, which would have occurred at the time of the sale. This would provide a better estimate of income for calculating the cap rate for a sale that occurred within that period. The Complainant presented a number of CARB decisions in support of this position.

[11] Due to this "backward looking" methodology, the cap rates listed in the Respondent's study are wrong. Further, two of the Respondent's sales are industrial properties, one of which required significant capital expenditure to repair deficiencies at the time of sale. A third sale had a significant component of excess land that would affect the sale price and cap rate. The remaining two properties, if analyzed using "forward looking" parameters from 2013, results in a mean and median cap rate of 6.32% which supports the requested 6.25% cap rate:

Address	Quality	AYOC	Sale Date	Sale Price	Area sf	Typical NOI (2013)	Cap Rate
110 Country Hills Ld NW	A+	2003	9/19/2012	\$ 9,200,000	27,496	\$ 572,747	6.23%
2583 29 St NE	A-	1998	8/1/2012	\$ 5,100,000	23,196	\$ 327,099	6.41%

[12] The CBRE Q2 2013 Canadian Cap Rate Survey presented by the Respondent reports a range of 5.75 to 6.25% for suburban office in Calgary, however, it describes Class A Suburban Office as "Best of class product, recently completed to a high standard, leases to better quality tenants on 5 and 10 year leases, typically newer construction". While the Complainant stated that the class of the building was not an issue, it was pointed out that this description of Class A does not fit the subject, which is an older building, and, as evidenced by several rent rolls from December 2012 to December 2013, is leased to smaller tenants with generally shorter-term leases of 3 to 5 years.

[13] The Complainant disputed the Respondent's contention that the March 21, 2012 sale price of the building supported the assessment. Firstly, the sale consisted of two roll numbers, not just the one under complaint. The other roll number is an adjacent vacant parcel to the north with a 2014 assessment of \$440,000. With the land portion deducted from the sale price, the value of the subject property is \$8,160,000 and significantly less than the \$8,720,000 assessment. Secondly, the Complainant disputed the Respondent's contention that the market had increased between the sale date and the valuation date. The Respondent's cap rate study did not include any time adjustment factors and supports the Complainant's position that the market was flat and the sale price does reflect the market value at the valuation date of July 1, 2013 despite having occurred 15 months prior. The requested assessment of \$8,020,000 represents an assessment to sale ratio (ASR) of 0.983 and the assessment under complaint should be reduced to the requested amount.

#### **Respondent's Position:**

[14] The Respondent presented the sales used in the cap rate analysis:

##### **2014 Suburban Office Capitalization Rate Study - A quality**

Address	Quality	AYOC	Sale Date	Sale Price	Area sf	Sale year typical NOI	Cap Rate
1020 68 Av NE	A-	1992	7/10/2012	\$ 30,200,000	148,372	\$1,852,068	6.13%
2583 29 St NE	A-	1998	8/1/2012	\$ 5,100,000	23,196	\$ 316,192	6.20%
110 Country Hills Ld NW	A+	2003	9/19/2012	\$ 9,200,000	27,496	\$ 531,422	5.78%
14505 Bannister Rd SE	A+	2000	4/19/2013	\$ 22,071,768	61,684	\$1,344,693	6.09%
3220 118 Av SE	A-	2005	5/22/2013	\$ 14,816,666	71,183	\$ 902,693	6.09%

The sales support the 6.0% used in the assessment and this rate is applied to all Class A suburban offices (except Quarry Park).

[15] The Respondent stated that the cap rate analysis uses the income parameters closest to the date of the sale. This is reasonable, as the market conditions in the latter part of the year would be better reflected in the parameters at July of that year, being closer to the date of sale. By using the parameters for the closest valuation date, the cap rate analysis would use typical market conditions at the time of sale. The Respondent noted that a number of CARB decisions supported this position and that there have been different decisions on this issue. The Respondent suggested that the Board should look at the evidence before it and not rely on prior decisions.

[16] The Respondent also presented third party market reports: The Colliers International Q3 2013 Cap Rate Report indicates 5.5 to 5.75% for A class suburban office in Calgary, and the CBRE Q2 2013 Canadian Cap Rate Survey reports 5.75 to 6.25%. The 6.0% cap rate applied is squarely within the reported range and should not be adjusted.

[17] The Respondent presented the RealNet office transaction report for the subject building, which transferred on March 21, 2012 along with the adjacent vacant parcel for \$8,600,000. The

Respondent stated that even if the land value were to be deducted from the sale price, the market increased approximately 1% per month over this period and therefore the sale price supports the assessment and the cap rate should not be increased.

**Board's Reasons for Decision:**

[18] The Board agrees that typical market conditions for the time of sale should be considered in determining the typical cap rate. In the subject case the two sales relied on by the Complainant occurred on August 1 and September 19. In the absence of specific information on trends between the two valuation dates, the Board considers that typical parameters at a date one to 2.5 months in the past would be more representative of typical market conditions than for a date 9.5 to 11 months in the future. Accordingly, the Board did not make a general finding with respect to the party positions of backward or forward looking estimates of income, but determined that for the sales presented, applying the July 2012 parameters were reasonable. In any event, the Board was reluctant to rely on the sale of two buildings, both quite dissimilar to the subject, to justify an adjustment to the cap rate.

[19] The Board considered the evidence of the sale of the subject building. There was no evidence to support the Respondent's assertion that values increased by 1% per month, and the Board agrees that the lack of time adjustment for the sale prices in the Respondent's cap rate analysis appears to indicate the market was stable over the period from July 2012 to July 2013. If the March 2012 sale price is considered to be indicative of the market value at the July 1, 2013 valuation date, the \$8,160,000 sale price of the subject results in an ASR of 1.07 which appears high and could support an adjustment to the cap rate. However, with the change of rental rate to storage, the 6.0% cap rate applied to the resulting NOI represents an ASR of 1.02 which is within a reasonable range of value.

[20] Accordingly, the Board determined that the 6.0% cap rate should not be adjusted for the subject property. The revised NOI of \$501,779 capitalized at 6.0% yields a value of \$8,362,983 which, truncated, results in a revised assessment of \$8,360,000.

DATED AT THE CITY OF CALGARY THIS 16<sup>th</sup> DAY OF July 2014.



H. Kim

Presiding Officer

**APPENDIX "A"****DOCUMENTS PRESENTED AT THE HEARING  
AND CONSIDERED BY THE BOARD:**

<b>NO.</b>	<b>ITEM</b>
1. C1	Complainant Disclosure
2. 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.*