



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:

Fluor Canada Ltd.
(as represented by Altus Group Limited), COMPLAINANT

and

The City of Calgary, RESPONDENT

before:

C. J. Griffin, PRESIDING OFFICER
D. Julien, BOARD MEMBER
G. Milne, BOARD MEMBER

This is a complaint to the Composite Assessment Review Board (CARB) in respect of a property assessment prepared by the Assessor of The City of Calgary and entered in the 2013 Assessment Roll as follows:

ROLL NUMBER(S):	757119003
LOCATION ADDRESS:	63 Sunpark Plaza SE
FILE NUMBER:	72659
ASSESSMENT:	\$70,960,000.

This complaint was heard on the 3rd day of September, 2013 at the office of the Assessment Review Board located at Floor Number 4, 1212 – 31 Avenue NE, Calgary, Alberta, in Boardroom 4.

Appeared on behalf of the Complainant:

- D. Chabot

Appeared on behalf of the Respondent:

- M. Ryan

Board's Decision in Respect of Preliminary and/or Procedural Matters:

The respondent brought forth a Preliminary Matter that relates to the Rebuttal brief submitted by the Complainant and a sale reported in same that the Respondent maintains is new evidence. The Complainant indicated that the sale introduced in their Rebuttal is presented in direct response to a sale contained in the brief of the Respondent. The CARB suggested that, not yet having seen any of the evidence it would reserve its decision on this matter until such time as the evidence was presented. Both parties agreed that this would be the expedient thing to do.

Property Description:

[1] According to the Property Assessment Summary Report (Exhibit C -1 pg. 20), the subject property is an owner occupied, A+ Classed, 4 storey, suburban office building containing a total assessed area of 210,684 Sq. Ft. together with 151 underground parking stalls. The building was constructed in 2000 and is located in the Sundance area of southeast Calgary.

Issue(s):

[2] The Complainant introduced one issue (Exhibit C-1 pg. 2) for the CARB's consideration consisting of:

The assessed office rental rate is in excess of market rent and a reduction is requested to recognize the significant size of the subject.

Current Assessment(s):

[3] \$ 70,960,000.

Complainant's Requested Value:

[4] \$ 62,620,000.

Board's Decision:

[5] The assessment is **reduced** to:

\$ 62,620,000.

Position of the Parties**Complainant's Position:**

[6] The Complainant capsulized their position by suggesting the matter at hand is related to an argument relating to 'economy of scale' in that the Assessor, in applying the assessed rental rate, has not made any allowance for the fact that the subject property is over 210,000 Sq. Ft. in size whereas the office rental rate applied has been derived from much smaller properties. It is the contention of the Complainant that a reduction on the assessed rental rate is warranted given the size of the subject property. In support of this position the Complainant introduced (Exhibit C-1 pg. 33) a copy of the Respondent's *SE A+ Lease Rate Study*, noting that same utilizes leased areas ranging from 2,803 Sq. Ft. to 47,830 Sq. Ft. with a Mean size of 14,563 Sq. Ft. and a Median size of 7,584 Sq. Ft. This same study indicates a Median rental rate of \$20/Sq. Ft., a Mean of \$20.10/Sq. Ft. and a Weighted Mean of \$19.46/Sq. Ft. The Complainant then introduced (Exhibit C-1 pg. 34) an excerpt from Market Value and Mass Appraisal for Property Assessment in Alberta pertaining to 'Economies of Scale'. This excerpt, from Section 3.C.VI, P 21 states *"In establishing market rents for individual offices, it is also necessary to keep in mind the economic theory behind 'economies of scale' which dictates that smaller offices command higher per square foot rents than larger offices, all other factors being equal."* A second quote (Exhibit C-1 pg. 35) from *The Appraisal of Real Estate, Second Canadian Edition* Section 17.6 under the heading *Selecting Units of Comparison* which states *"It may sometimes be necessary to adjust for differences in economies of scale. Even if all other property characteristics seem similar, a sale property that is substantially larger or smaller than the subject property may not be a particularly meaningful comparable because the per unit price of the larger property may be lowered by economies of scale"*. Additionally the Complainant introduced (Exhibit C-1 pg. 36) an excerpt from the assessor's *Office Building Valuation Guide* which, under the heading *Full Floor Rents* states *"All other factors being equal, the expectation is that a small office in a building will have a higher rent than a larger office in the same building. In order to ensure that the rental rates established for the types of space in the building reflect typical current market rents, typical rental areas should be considered. As a general rule, and in order to compare one office building to another, the assessor should attempt to determine the current rents for a full office floor"*.

[7] In support of their requested reduction in the assessed office rental rate, the Complainant introduced (Exhibit C-1 pg. 55) an example of leases signed within one year of each other for leases in a building located Quarry Park of under 10,000 Sq. Ft. indicating a Weighted Mean of \$25.95/Sq. Ft. compared to two leases, also for buildings located in Quarry Park, of 100,000 (99,249) Sq. Ft. to 345,650 Sq. Ft. which indicate a Weighted Mean of \$23.50/Sq. Ft., a differential of \$2.45/Sq. Ft. which forms the basis for the Complainant's requested reduction.

Respondent's Position:

[7] The Respondent introduced (Exhibit R-1 pg. 54) a copy of their *Revised 2013 Suburban Office Lease Analysis: A+ Quality SE* in which the subject property has been included and which indicates a Median rate of \$21/Sq. Ft. and a Weighted Mean of \$20.53/Sq. Ft., supporting the assessed office rental rate of \$21/Sq. Ft.. The Respondent explained to the CARB that while the Weighted Mean itself is not used, it is given consideration in establishing the assessed rental rate and that the Weighted Mean takes lease area into account. It is the contention of the Respondent that this information supports application of the assessed office rental rate.

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

NO.	ITEM
1. C1	Complainant Disclosure
2. C2	Complainant Rebuttal
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.*

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Municipality: Calgary	Decision No. 72659/P-2013	Roll No: 757119003
<u>Property Type</u>	<u>Property Sub-Type</u>	<u>Issue</u> <u>Sub-Issue</u>
Office	Suburban Office	M.V. Assessed office rental rate & Economies of Scale

Complainant's Rebuttal

[8] The Complainant maintains that they were never supplied with the Respondent's *Revised 2013 Suburban Office Rental Rate Analysis: SE A+ Quality SE* study and introduced their in their Rebuttal (Exhibit C-2 pg. 3) a copy of the original study (Exhibit R-1 pg. 22) noting four instances of information that appears to have been included in error and suggested these be removed from the study. Specifically, the property at 4000 – 4th Street SE which includes unaccounted for free rent and rent abatement periods; 815 MacDonald Ave. Is a residence not an office building; 15 Sunpark Plaza which is a retail store, not an office building and 7175 – 12 Street SE which involves a sale/leaseback. The Complainant also provided (Exhibit C-2 pgs. 4 – 23) support for all of the foregoing. The Complainant further noted that the Respondent's Revised study (Exhibit R-1 pg. 54) still contains two of the questionable entries which, they contend, should be removed. In response to the Respondent's claim that the Complainant has not used a large enough universe of leases to support their contention, the Complainant introduced (Exhibit C-2, pgs. 52 – 58) several examples of lease rate studies, for various property types, have been prepared by the City Assessors where as few as one or two properties have been the bases for their conclusions.

Board's Decision Reasons:

[9] The CARB finds the evidence evidence of the Complainant pertaining to recognition of 'economies of scale' (Exhibit C-1 pgs. 34 – 36) to be directly on point. The CARB further finds that the fact that the Assessor does recognize the 'economies of scale' for other property types such as retail and industrial but not for suburban office buildings to be inconsistent. The Respondent maintains that the Weighted Mean addresses this matter; however, the analysis from which the Weighted Mean is derived does not include any leased areas anywhere near the size of the subject. Additionally, while the Respondent maintains that consideration is given to the Weighted Mean, in practice there is no evidence indicating same. In consideration of the foregoing the CARB is of the judgment that the lease rate for the subject should be reduced to account for the 'economies of scale'. Accordingly the assessed value is **reduced**.

DATED AT THE CITY OF CALGARY THIS 3rd DAY OF October 2013.


C. J. Griffin, Presiding Officer