



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:

Air Canada (as represented by Altus Group Limited), COMPLAINANT

and

The City Of Calgary, RESPONDENT

before:

***H. Kim, PRESIDING OFFICER
Y. Nesry, BOARD MEMBER
A. Wong, 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 2013 Assessment Roll as follows:

ROLL NUMBER:	902003714
LOCATION ADDRESS:	8050 22 St NE
FILE NUMBER:	72162
ASSESSMENT:	\$29,810,000

This complaint was heard on the 28th of October, 2013 at the office of the Assessment Review Board located at Floor Number 4, 1212 – 31 Avenue NE, Calgary, Alberta, Boardroom 4.

Appeared on behalf of the Complainant:

- *D. Chabot, Altus Group Limited*

Appeared on behalf of the Respondent:

- *K. Buckry, Assessor*

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

[1] The evidence and argument for the subject complaint was identical to the one for Roll Number 902019009. The subject complaint was presented in detail, and both the Complainant and Respondent requested that all aspects of the presentation be carried over to the second roll number.

[2] As both parties were in agreement, the hearing proceeded on that basis.

Property Description:

[3] The subject is the Air Canada hangar at the Calgary International Airport (YYC). It was constructed in 1987 with a warehouse component in 2002 which is not under complaint. The building is owned by Air Canada on land leased from the Calgary Airport Authority. The assessment is based on the fee simple value of the land and improvement using the income approach to value. The hangar is assessed as an Aviation Hangar Single Tenant "B" class with 216,089 rentable square feet at \$12/sf. Typical vacancy and nonrecoverables of 6.5% are deducted to arrive at a net operating income (NOI) of \$2,316,474 which is capitalized at 8.0% to arrive at a value of \$28,955,926 which, added to the warehouse value of \$858,796 and truncated, results in the assessment under complaint.

Issues:

[4] The Complaint form identified a number of reasons for complaint; however at the hearing the only issue argued was whether the rental rate of the hangar should be reduced from \$12/sf to \$11/sf to reflect economies of scale.

Complainant's Requested Value: **\$27,280,000**

Board's Decision:

[5] The assessment is confirmed at \$29,810,000

Issue – Rental Rate:

Complainant's Position:

[6] The Complainant stated that a Section 299/300 request was made for the subject roll number and this was the first year that the leases used to determine the lease rate was made available. The largest lease space is 31,559 sf and the Complainant argued that lease rates for small hangars would not reflect the lease rate for a hangar of over 200,000 sf.

[7] The Complainant analyzed the lease rates, grouping them into leased areas over and under 10,000 sf. The median rate of the smaller leased areas was \$20.38/sf while the larger

spaces was \$13.01, and the leases were plotted on a graph of lease rates relative to size of space. The trend line supports the Complainant's position that per square foot lease rates decline as size of space increases.

[8] This is consistent with the principle of economies of scale. The Complainant presented appraisal references, including an excerpt from *Market Value and Mass Appraisal for Property Assessment in Alberta* which 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.

and *The Appraisal of Real Estate, Second Canadian Edition* which states in Section 17.6:

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.

[9] The Complainant noted that economies of scale are recognized in other building types. For example, CRU space in Sunridge Mall is assessed at Market Net Rental rates of \$55 for under 1,000 sf with declining rates for ranges of larger spaces, down to \$12.50 for CRUs of over 40,000 sf. Similarly, the Respondent has different coding for industrial building types: Industrial Warehouse Single Tenant (IWS), Industrial Warehouse Multi Tenant - Large Bay (IWM-L) and Small Bay (IWS-S). The Complainant presented a Property Assessment Explanation Summary (AES) for a warehouse at YYC to show that the Respondent applies different rates for IWS (\$6.50) and IWM-L (\$7.50), which is supported by actual leases from 2011 and 2012, at \$6.25 for a 180,000 sf space compared to \$7.90 and \$7 for 65,596 and 32,809 sf respectively.

[10] While the Complainant recognizes that hangars are not the same as industrial warehouses, the \$1.20 difference between the lease rates for a very large industrial space and the median of the smaller spaces supports a \$1/sf reduction in the assessed rate for the subject property. This reduction would recognize economies of scale for a 200,000 sf hangar compared to 30,000 sf hangars.

Respondent's Position:

[11] The Respondent stated that aircraft hangars are highly specialized custom structures to support diverse requirements of aircraft and owners. Hangars are different from warehouses due to airside access within the airport security perimeter, with apron for maneuvering and servicing aircraft. Hangars are sized to accommodate the intended aircraft, and the cost and the quality of construction of hangars vary dramatically. Some floor systems must be designed and constructed to handle the weight of extremely large aircrafts and hangar doors vary in size, design and functionality (electric vs manual or rollers vs bifolds).

[12] Unlike warehouses, which can be located anywhere in the city, hangars must be located at the airport and have airside access. Therefore inventory is limited and the result of having low supply coupled with high demand is a high value. Market evidence as shown in the hangar rental rates confirms this. Hangars have little turnover and rarely sell.

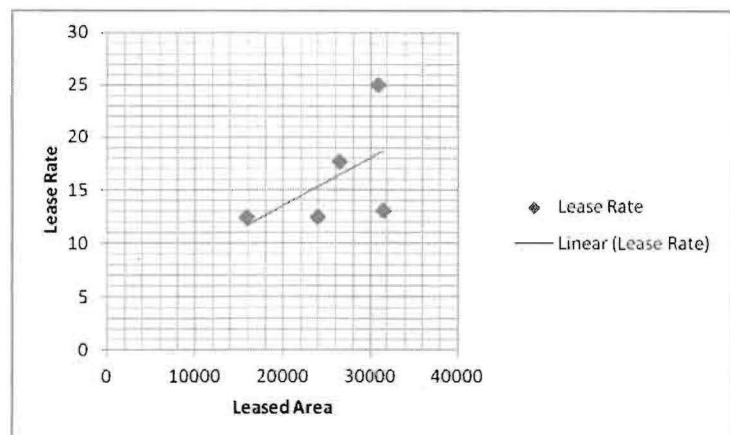
[13] The principle of economies of scale does not apply to hangars. Aircrafts vary in size and the clear wall height determines whether larger aircraft can be accommodated to allow more business options. Larger hangars can incorporate additional amenities which increase their value. The market confirms that this results in a reverse economy of scale. The Respondent referred to various Board decisions supporting this position.

[14] The Respondent disclosed all arms-length valid hangar leases in response to the Property Assessment Information Request (PAIR) as follows. However, only the five leases mid-list (indicated in bold) were used in the analysis to arrive at the assessed rate:

Address	Trade Park	AYOC	Hangar	Area (sf)	Lease Start	Term	Type	Net Rent	Op Costs
1224 Aviation Pa	McKnight	1977	Field Aviation (West)	18,980	2010	3	PGN	\$18.05	\$2.25
1224 Aviation Pa	McKnight	1977	Field Aviation (West)	13,815	2012	1	PGN	\$18.05	\$2.25
1224 Aviation Pa	McKnight	1977	Field Aviation (West)	11,000	2010	3	PGN	\$18.05	\$2.25
1224 Aviation Pa	McKnight	1977	Field Aviation (West)	36,400	2011	3	PGN	\$18.05	\$2.25
1312 Aviation Pa	McKnight	1957	Field Aviation (East)	46,800	2010	3	PGN	\$18.05	\$2.25
1312 Aviation Pa	McKnight	1957	Field Aviation (East)	56,535	2010	3	PGN	\$18.05	\$2.25
1312 Aviation Pa	McKnight	1957	Field Aviation (East)	7,040	2010	3	PGN	\$18.05	\$2.25
305 Aviation Wy	McKnight	2007	Dave's Oilfield / Werklund	30,963	2009	5	N	\$25.00	\$6.00
1441 Aviation Pa	McKnight	1990	Landmark Aviation FBO	26,463	2010	3	N	\$17.65	
660 Palmer Rd	South McCall	1981	Aeroterm	15,861	2006	5	N	\$12.40	\$7.20
660 Palmer Rd	South McCall	1981	Aeroterm	31,559	2009	10	N	\$13.01	\$7.90
660 Palmer Rd	South McCall	1981	Aeroterm	23,937	2012	5	N	\$12.40	\$7.20
575 Palmer Rd	South McCall	1969	Skyservice FBO/ESSO Avitat	3,190	2011	3	N	\$18.00	
575 Palmer Rd	South McCall	1969	Skyservice FBO/ESSO Avitat	572	2010	2	N	\$21.00	
575 Palmer Rd	South McCall	1969	Skyservice FBO/ESSO Avitat	2,496	2010	2	N	\$13.45	
575 Palmer Rd	South McCall	1969	Skyservice FBO/ESSO Avitat	2,024	2011	1	N	\$20.00	
575 Palmer Rd	South McCall	1969	Skyservice FBO/ESSO Avitat	2,628	2010	2	N	\$16.50	
575 Palmer Rd	South McCall	1969	Skyservice FBO/ESSO Avitat	2,629	2012	1	N	\$22.00	
575 Palmer Rd	South McCall	1969	Skyservice FBO/ESSO Avitat	1,800	2011	1	N	\$21.00	
575 Palmer Rd	South McCall	1969	Skyservice FBO/ESSO Avitat	4,383	2011	3	N	\$21.00	
575 Palmer Rd	South McCall	1969	Skyservice FBO/ESSO Avitat	6,072	2010	1	N	\$20.00	
575 Palmer Rd	South McCall	1969	Skyservice FBO/ESSO Avitat	6,861	2011	3	N	\$22.00	
575 Palmer Rd	South McCall	1969	Skyservice FBO/ESSO Avitat	2,077	2011	3	N	\$20.75	
575 Palmer Rd	South McCall	1969	Skyservice FBO/ESSO Avitat	7,768	2010	2	N	\$18.00	

[15] The Field Aviation leases were not used in the analysis because they are Partial Gross Net (PGN) and are only an indicator of value as the tenants pay for utilities but not all operating costs. The Esso/Skyservice FBO was also not used, as a Fixed Base Operator (FBO) is an airport service centre affiliated with a major aviation fuel supplier. Skyservice subleases the entire FBO from ESSO and the reported rent includes concessions for maintenance labour and fuel line servicing, costs which pass from ESSO to Skyservice and to their tenants. The lease structure and space type is atypical, therefore not included in the analysis.

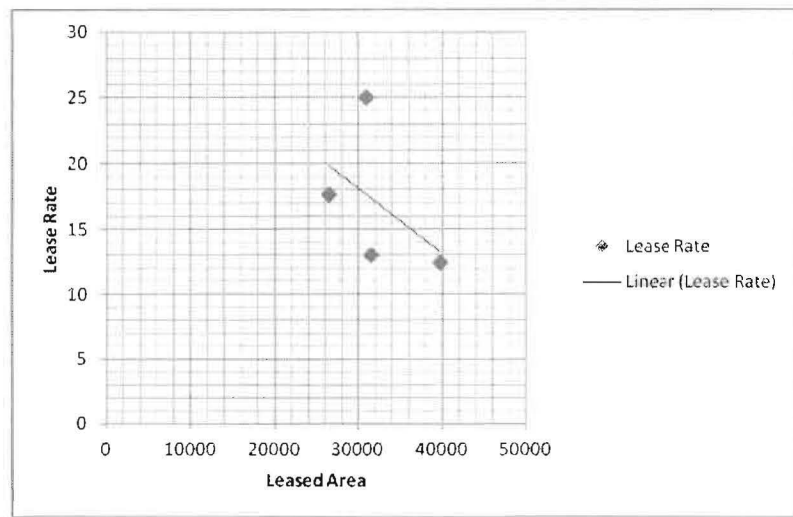
[16] When the five remaining leases are plotted on a graph, the trend line shows that rates increase with increasing size of space:



[17] The Respondent recognized that the lease rates presented were higher than the \$12/sf applied, but due to the wide variation among hangars, it is appropriate to apply the low end of the range of rents to determine value for assessment purposes. The assessment details of the subject compared to 14 other hangars showed that all were assessed at \$12/sf. The Respondent noted that the subject had a 55' clear wall height, which, other than the Westjet and SAIT hangars is substantially greater than the typical height of 30 to 35' and able to accommodate a much greater range of aircraft. Therefore, economies of scale do not exist in hangars; the \$12 lease rate is correct and equitable and should be confirmed.

Complainant's Rebuttal:

[18] The Complainant stated that the two \$12.40 leases were in within the same property and leased to the same company, as evidenced by the rent roll for 660 Palmer Road NE. The two spaces added together results in a 39,798 sf space, which, when plotted at \$12.40 results in a trend line that decreases with increased size:



[19] The subject situation is similar to what occurred in suburban office space, where this year, for the first time, the Respondent provided all the lease rates for suburban offices which were used to determine the lease rates used in the assessment. An analysis of the lease rates showed larger spaces lease at lower rates than smaller spaces, a point successfully argued by the Complainant. In CARB 72659/P-2013 and 72512/P-2013, the Board stated that reduced the lease rate to account for "economies of scale".

[20] The Complainant agreed the supply of hangar space was limited, but disputed that the demand was high. Should Air Canada no longer need the hangar, the universe of potential tenants is very limited, and they would likely have to reduce the rate to attract a tenant who likely would not require the amount of space available in such a large hangar. The Complainant noted that this was happening in other locations where the scale of operations was reduced, and stated that there was economies of scale that should be recognized in a lease rate of \$11/sf instead of \$12.

Findings and Reasons:

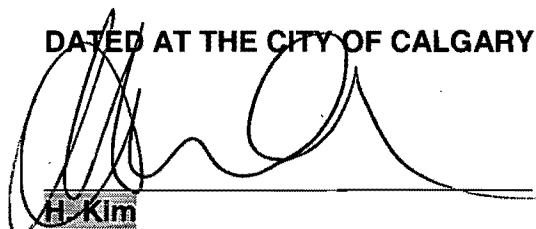
[21] While the Board considers the Complainant's argument to be logical, it was not supported by market evidence. The Board agrees with the Respondent that the Field Aviation and Skyservice FBO leases are atypical and should not be included in the analysis, and finds that the remaining leases, whether four or five, are too small of a sample size from which to draw any conclusions with respect to the relationship between size of leased area and rental rate.

[22] The Board agrees that demand for a very large hangar might be limited should Air Canada decide to reduce their operations at YYC, and attempts to lease it might require a

reduction in the lease rate; however, until that actually happens, it would not be possible to determine whether the size would be a negative or positive factor in its leasing. The Board agrees that aircraft hangars are unique and limited in location, therefore the normal market conditions of economies of scale cannot be assumed in the absence of market evidence to substantiate it.

[23] Therefore, the Board found it had insufficient evidence to vary the \$12/sf rate applied to the assessment.

DATED AT THE CITY OF CALGARY THIS 13th DAY OF November 2013.



H. Kim

Presiding Officer

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

NO.	ITEM
1. C1	Complainant's Disclosure
2. R1	Respondent Disclosure
3. C2	Complainant's Rebuttal
4. C3	Complainant' submission CARB 72512P-2013

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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Property Type	Property Sub-Type	Issue	Sub-Issues
(6) Other	Hangar	Income Approach	Net Market Rent