



## **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:

**1201 Glenmore Gp. Inc.**  
**(as represented by Altus Group Limited), COMPLAINANT**

and

**The City of Calgary, RESPONDENT**

before:

**C. J. Griffin, PRESIDING OFFICER**  
**J. Mathias, BOARD MEMBER**  
**J. Lam, 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:

<b>ROLL NUMBER(S):</b>	<b>111180006</b>
<b>LOCATION ADDRESS:</b>	<b>1201 Glenmore Trail SW</b>
<b>FILE NUMBER:</b>	<b>72512</b>
<b>ASSESSMENT:</b>	<b>\$48,720,000.</b>

This complaint was heard on the 30<sup>th</sup> 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:**

There were no Preliminary or Procedural Matters brought forward by either party.

**Property Description:**

[1] According to the Property Assessment Summary Report (Exhibit C -1 pg. 20), the subject property is a single tenant, A+ Classed, 6 storey, suburban hi-rise office building containing a total assessed area of 137,222 Sq. Ft. together with 162 underground parking stalls. The building was constructed in 2008 and is located in the Kelvin Grove area of southwest Calgary.

**Issue(s):**

[2] The Complainant introduced one issue (Exhibit C-1 pg. 7) 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] \$ 48,720,000.

**Complainant's Requested Value:**

[4] \$ 44,410,000.

**Board's Decision:**

[5] The assessment is **reduced** to:  
\$ 44,410,000.

**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 135,000 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. 43) a chart that was reportedly based upon Leasing studies compiled by the City of Calgary and which shows the differential, by city quadrant, of lease rates for spaces of 10,000 Sq. ft. or less as opposed to 10,000 Sq. Ft. and greater. This analysis is further broken down by quality classifications from A+ through C. The Median differential between the smaller spaces and the larger spaces for the SE quadrant is 1.49/Sq. Ft., for the SW quadrant the differential is \$1.90/Sq. Ft., \$0.38/Sq. Ft. for the NE quadrant and \$1.54 for the NW quadrant.

[7] The Complainant then introduced (Exhibit C-1 pg 33) 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. 34) 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. 35) 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"*.

[8] In support of their requested reduction in the assessed office rental rate, the Complainant introduced (Exhibit C-1 pg. 54) an example of leases signed within one year of each other for leases in a building in 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. Additionally, the Complainant provided (Exhibit C-1 pg. 55) an example of lease rates for space of 10,000 Sq. Ft. or less in the Southport complex which indicated a Weighted Mean of \$18.98/Sq. Ft. compared to a lease for 142,247 Sq. Ft. in the same complex which was signed at a rate of \$17/Sq. Ft. The Complainant maintains that both of these examples provide support for their requested reduced rental rate. The Complainant finished their presentation by introducing (Exhibit C-1 pg. 61) a copy of a chart showing industrial lease rates, categorized by size, which shows a significant decline in rental rates as the size increases.

**Respondent's Position:**

[9] The Respondent introduced (Exhibit R-1 pg. 15) a copy of their *2013 Suburban Office Lease Analysis: A+ Quality SW* which provides a synopsis of nine (9) leases from four (4) different southwest located buildings. The leased areas range from a low of 1,132 Sq. ft. to a high of 11,311 Sq. Ft. and the lease rates range from a low of \$20.50/Sq. Ft. to a high of \$23/Sq. Ft. This same chart indicates a Mean of \$21.72/Sq. Ft., a Median of \$22/Sq. Ft. and a Weighted Mean of \$21.50/Sq. Ft. all of which, the Respondent contends, support the assessed rate of \$22/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. This is explained in more detail (Exhibit R-1 pg. 17) where they say *"More emphasis is placed on the weighted mean, in most circumstances, to account for the potential of economies of scale."*

[10] The respondent further maintains that *"Isolated (sic) one component of the income approach isn't valid because of its impact relative to the rest of the inputs, change one and it changes the calculation"* (Exhibit R-1 pg. 18). They go on with *"Specifically the Complainant has not adjusted the capitalization rate calculation or the vacancy to reflect this change in methodology."*

**Complainant's Rebuttal**

[11] 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. 3 – 9) several examples of lease rate studies, for various property types, that 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:**

[12] The CARB finds the evidence of the Complainant pertaining to recognition of 'economies of scale' (Exhibit C-1 pgs. 33 – 35) 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'.

[13] The Respondent indicated (Exhibit R-1 pg. 18) that *"Isolated (sic) one component of the income approach isn't valid because of its impact relative to the rest of the inputs, change one and it changes the calculation"*. The foregoing makes little sense to the CARB as it counters the logic behind algebra. Suggesting that if one side of a calculation is changed then the other side must also be changed is only valid if one seeks the same answer. Certainly if the area in question requires a change that does not mean other inputs utilized in the calculation also require a change. A change in rental rate does not automatically require a change to the capitalization rate as these two in-puts are, or should be, generated from separate studies.

Certainly properties from within any one category may trade at particular capitalization rate but that does not mean, or require, that the rents for all of those properties need be the same. There is no question that the CARB fully subscribes to the theory that a capitalization rate need be applied in the same manner from which it was derived; however, this does not mean that the CARB accepts the notion that changing one in-put in an equation also requires other in-puts to be adjusted.

DATED AT THE CITY OF CALGARY THIS 24<sup>th</sup> DAY OF October 2013.



C. J. Griffin,  
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. 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.*

**For MGB Administrative Use Only**

Municipality: Calgary	Decision No. 72512/P-2013	Roll No:	<b>111180006</b>
<b><u>Property Type</u></b>	<b><u>Property Sub-Type</u></b>	<b><u>Issue</u></b>	<b><u>Sub-Issue</u></b>
Office	Suburban Office	M.V.	Assessed office rental rate & Economies of Scale