Decision No.: 0262 544/2013
Complaint ID: 544
Roll No.: 3011545

2013 COMPOSITE ASSESSMENT REVIEW BOARD DECISION

HEARING DATE: 2013 JULY 25 to 30

PRESIDING OFFICER: M. CHILIBECK
BOARD MEMBER: A. KNIGHT
BOARD MEMBER: A. GAMBLE

BOARD CLERK: S. PARSONS

BETWEEN:

Finning International Inc.

Complainant

-and-

The City of Red Deer

Respondent

This is a complaint to the Central Alberta Regional Assessment Review Board in respect of a property assessment prepared by the City Assessor of the City of Red Deer and entered in the 2013 Assessment Roll as follows:

| | |
|---|---|
| ROLL NUMBER: | 3011545 |
| MUNICIPAL ADDRESS: | 7550 – Edgar Industrial Dr |
| ASSESSMENT: | $58,272,200.00 |

[1] The complaint was heard by the Composite Assessment Review Board (Board) on the 25th to the 30th days of July, 2013, in the Council Chambers of The City of Red Deer.

[2] Appeared on behalf of the Complainant:

- B. Dell, Solicitor, Wilson Laycraft
- J. Smiley, Agent, AEC Property Tax Solutions
- C. Hall, Agent, AEC Property Tax Solutions
- M. Garcelon, Property Appraiser, Soderquist Appraisals Ltd

[3] Appeared on behalf of the Respondent:

- A. Kosak, Solicitor, Brownlee LLP
- A. Meckling, Property Assessor, City of Red Deer
- Dr. T. Sveinson, Civil Engineer, Sveinson Consulting Engineers Ltd.
- B. Gettel, Property Appraiser, Gettel Appraisals Ltd.

[4] Observers:

- B. Lutz, City Assessor, City of Red Deer
- J. Parkin, Financial Services Manager, City of Red Deer
- R. Kotchon, Property Assessor, City of Red Deer
- M. Baer, Associate City Solicitor, City of Red Deer

## JURISDICTION

[5] The Central Alberta Regional Assessment Review Board (hereinafter, "the CARARB") has been established in accordance with section 456 of the *Municipal Government Act R.S.A. 2000, ch M–26* (hereinafter, "the MGA") and the *City of Red Deer Assessment Review Board Bylaw 3441/2009.*

[6] Neither party raised an objection to any Board member hearing the complaint.

[7] No jurisdictional matters were raised by either party.

## PRELIMINARY MATTER

[8] No Preliminary Matter requiring a decision by the Board was brought forth.

## PROCEDURAL MATTERS

[9] The Respondent advised that Exhibits C-5 and C-7 were received the day before the hearing and therefore have not had the opportunity to review them however; the Respondent accepts these Exhibits and advised they would review at the next opportune time.

[10] Prior to hearing Hall's cost rebuttal, the Respondent objected to Hall entering new evidence in support of his rebuttal because the evidence is not proper evidence according to the *Matters Relating to Assessment Complainants Regulation* (MRAC). The Respondent argued that Hall's rebuttal should be restricted to the rebuttal disclosure marked as Exhibit 4C and the corrections and changes made by Exhibit 7C, otherwise if new evidence is presented the Respondent is not able to respond to the new evidence and effectively the Complainant is "splitting the case".

[11] The Board's decision was to not accept the evidence because the Complainant had every opportunity to include the new evidence in their rebuttal disclosure as required under Section 8(2)(c) of MRAC which states as follows.

> *"8(2)(c) the complainant must, at least 7 days before the hearing date, disclose to the respondent and the composite assessment review board the documentary evidence, - - - that the complainant intends to present at the hearing in rebuttal to the disclosure made under clause (b) in sufficient detail to allow the respondent to respond to or rebut the evidence at the hearing."*

[12] Also, the Board must not hear any evidence that has not been disclosed according to Section 8(2)(c) of MRAC which states as follows.

> *"9(2) A composite assessment review board must not hear any evidence that has not been disclosed in accordance with section 8."*

[13] However, the Board advised the parties that Hall's evidence pertaining to correcting any data in Exhibit 4C and 7C would be allowed.

## PROPERTY DESCRIPTION

[14] The subject property is a large industrial assembly and overhaul facility situated on a parcel of land that contains 30.89 acres and has 13% site coverage. The subject is located in Edgar Industrial subdivision in the northwest area of the City of Red Deer. This property has direct exposure to Highway 2 on the west side and access to Edgar Industrial Drive on the east side.

[15] The subject property is owner occupied and is used to assemble new equipment (Phase I building) and overhaul used equipment (Phase II building) used in mining, heavy construction and power systems industries. The subject owner purchased the property in November, 2008 by the acquisition of Collicutt Energy Services. The previous owner had the buildings designed to

accommodate the large overhead cranes and handling of heavy materials and completed units such as natural gas compression units and natural gas fired power generation units.

[16] Seven improvements are located on the subject parcel as enumerated under Assessment Background.

[17] The Phase I building is comprised of two parts, the three storey office node with a total of 35,718 sq. ft. and the assembly shop with 53,396 sq. ft. (approximately 175 ft. wide & 304 ft. long) within which is 15,000 sq. ft. of mezzanine space. The wall height is 46 feet and the bays are 75 feet deep which are accessed through 28 x 29 foot bay doors and 12 x 16 foot bay doors.

[18] Within the assembly shop space are two levels of mezzanine space located in the centre that runs the length of the assembly shop (approximately 25 ft. by 304 ft.). The 75 foot bays are located on both sides of the mezzanine space.

[19] The following material handling systems are located within the assembly shop;

1. Bridge Cranes
   a. 6-10 ton, 60 foot span, single girder
   b. 4-40 ton, 60 foot span, double girder
2. Craneways
   a. 2-40 ton, 300 feet long, I side bracketed, 1 side free-standing
   b. 2-80 ton, 300 feet long, bracketed
3. Jib Cranes
   a. 1-10 ton, 20 foot span

[20] The Phase II building is comprised of the overhaul shop and three nodes; the three floors of office space (16,065 sq. ft.) on the east side and two nodes on the west side. The overhaul shop space and the three nodes have an area of 91,620 sq. ft. The wall heights are 17, 27, 44 and 50 feet with the majority of the building (overhaul shop) at 44 feet. The overhaul shop space itself is approximately 72,800 sq. ft. (approximately 140 ft. wide and 520 ft. long) with bays 70 feet deep which are accessed from both sides of the building through 28 x 29 foot doors, 20 x 20 foot doors and 22 x 26 foot doors.

[21] The following material handling systems are located within the overhaul shop;

1. Bridge Cranes
   a. 10-10 ton, 60 foot span, single girder
   b. 1-40 ton, 60 foot span, double girder
   c. 1-2 ton, 35 foot span, double girder
2. Craneways
   a. 2-90 ton, 450 feet long, bracketed
3. Jib Cranes
   a. 8-1 ton, 20 foot span

## ASSESSMENT BACKGROUND

[22] The subject assessment was determined by using the depreciated replacement cost new (DRCN) method of valuation by using the Marshal Valuation Service cost manual.

[23] The two primary buildings, Phase I (assembly and office) and Phase II (overhaul and office) are classified under Occupancy-Industrials, Heavy (Process) Manufacturing (495), Class-S, Type-Good and Occupancy-Office Buildings (344), Class-S, Type-Good, respectively.

[24] The total assessment is comprised of the following components.

| | | | |
|---|---|---|---|
| • Land at market value | 30.89 Acres | | $12,946,000 |
| • Wash Bay | | 6,240 sq. ft. | $ 978,300 |
| • Seacan Building | | 5,600 sq. ft. | $ 159,500 |
| • Security House | | 479 sq. ft. | $ 35,800 |
| • Phase 1 (Assembly Bldg.) | 89,114 sq. ft. | | $19,636,000 |
| • Phase 11 (Overhaul Bldg.) | 107,685 sq. ft. | | $21,490,100 |
| • Fencing & paving | | | $ 185,900 |
| • Machinery & Equipment-Cranes, etc., Paint Booths, & Water Reclamation System | | | $ 2,840,600 |
| | | Total Assessment | $58,272,200 |

## ISSUES

[25] The Complainant identified six matters on the Assessment Review Board Complaint form that apply to the complaint and on an attachment outlined several reasons for the complaint.

[26] At the outset of the hearing, the Complainant confirmed that the matter of the assessment amount is under complaint and identified the following issues that are under contention.

1. The assessment of the subject property, as of July 1, 2012, is in excess of its market value as supported by:
    a. the property appraisal and
    b. the depreciated replacement cost

## COMPLAINANT'S REQUESTED VALUE:

- As per Complaint Form: $30,000,000.
- As per Appraisal Report: $33,925,000.(not including crane, etc. value)
- As per Cost Report Rebuttal: $37,088,000.

## PARTY POSITIONS:

## COMPLAINANT:

### a. Smiley, Agent of AEC

[27] The Complainant contends that the subject property is not a special purpose property as identified by the Respondent, it shares characteristics that are in common with typical industrial properties, such as standard industrial construction style and materials, and the subject can easily accommodate a change of purpose.

[28] Reference was made to the definition of "special-purpose property" from The Dictionary of Real Estate Appraisal, Third Edition that says as follows.

> A limited market property with a unique physical design, special construction materials, or a layout that restricts its utility to the use for which it was built; also called *special-design property*.

[29] Therefore, the subject should not be valued via the depreciated replacement cost new (DRCN) method; it should be valued as a typical industrial property which is valued via the capitalized income method by the Respondent. A Calgary CARB decision, 1497/2010-P, was referenced in support of the position that the subject property can be valued via the capitalized income method and direct sales comparison method.

[30] Smiley also brought to the Board's attention that properties like the subject do sell in the market place, such as the subject which was purchased by the Complainant in November, 2008 and three Calgary properties, 3 Freeport WY NE, 6735-11 ST NE and 4700-47 ST SE. which sold in August, 2008, January, 2002 and September, 2011 for $134, $132 and $120 per sq. ft. of building area, respectively. The property at 4700-47 ST also sold in February, 2013 for $128 per sq. ft. and leased back by the vendor at $9.95 per sq. ft.

[31] The Complainant (Property Owner) obtained a property appraisal report by M. Garcelon of Soderquist Appraisals Ltd. wherein the value was estimated at $33,925,000 as of July 1, 2012 by using the capitalized income and direct sales comparison methods. The estimated value does not include a value for the cranes, etc.

### b. Garcelon's Property Appraisal

[32] The Complainant's property appraiser, M. Garcelon (Garcelon) of Soderquist Appraisals Ltd., prepared an appraisal report on the subject property and determined the final estimate of value at $33,925,000. This estimate of value does not include any value for the bridge and jib cranes, paint booths and water reclamation system that are assessed by the Respondent at $2,840,000.

[33] Garcelon utilized two methods of valuation; the capitalized income method and the direct sales comparison method. The DRCN method was not used because it *"has numerous weaknesses including the necessity of estimating a separate raw land value, and the difficulty in accurately measuring not only a current replacement cost for the improvements but also the various types of accrued depreciation."*

[34] Five lease rate comparables from outside the City of Red Deer and six lease rate comparables from within Red Deer were used to determine a market lease rate of $12 per sq. ft. of building area for the subject property.

[35] The comparables from outside Red Deer range in area from 158,154 sq. ft. to 299,767 sq. ft. and range in lease rate from $6.10 sq. ft. to $9.95 per sq. ft.

[36] The comparables from within Red Deer range in area from 20,810 sq. ft. to 37,540 sq. ft. and range in lease rate from $9.35 per sq. ft. to $23.21 per sq. ft. The rate of $23.21 per sq. ft. was given no weight as the lease was signed in October, 2012 and therefore considered post-facto the valuation date of July 1, 2012, resulting in a range of lease rates of $9.35 per sq. ft. to $14.53 per sq. ft.

[37] Garcelon rationalized the market rental rate for the subject property to be $12.00 per sq. ft.

[38] Six sale comparables from outside Red Deer were used to determine the capitalization rate (Cap Rate).

[39] The comparables are from Calgary (5) and Edmonton (1) which range in sale date from March, 2011 to September, 2012, range in age from 1981 to 2008 and range in Cap Rate from 6.68% to 8.55%.

[40] Garcelon rationalized the market capitalization rate for the subject property to be 7.5%.

[41] The rental rate of $12.00 per sq. ft., the Cap Rate of 7.5%, a vacancy and collection loss allowance of 5% and a structural and maintenance allowance of 1% were used to derive an estimate of value of $33,960,000 for the subject property.

[42] Nine sale comparables, one from Red Deer, two from Edmonton and six from Calgary, were used to estimate the value by using the direct sales comparison method.

[43] These comparables range in sale date from December, 2009 to September, 2012 and range in sale price from $106 per sq. ft. to $174 per sq. ft. of building area.

[44] Garcelon placed the most weight on two sales, the Red Deer sale which sold for $108 per sq. ft. in December, 2009 and the Edmonton sale which sold for $139 per sq. ft. in April, 2010.

[45] Garcelon rationalized the sale price to be $150 per sq. ft. of building area for the subject property which applied to the total area of the subject buildings of 225,676 sq. ft. results in an estimate of value of $33,851,000 for the subject property.

[46] Garcelon rationalized the final estimate of value, as at July 1, 2012, at $33,925,000.

### c. Hall's Replacement Cost

[47] Mr. C. Hall (Hall), of AEC Valuations, calculated a value for the subject property using the DRCN method.

[48] Hall accepted the Respondent's assessed values for the land, for the cranes, paint booth, and water reclamation system (Machinery & equipment) and for the security, seacan and wash buildings and contested the valuation for the two main buildings, the Assembly building (Phase I) and Overhaul building (Phase II).

[49] The assessed value for the land, wash bay, seacan, and security building, were subtracted from Garcelon's appraised value which left a value of $19,805,400 for the Phase I and Phase II buildings. This value was contrasted against the Respondent's DRCN of $41,126,100. Hall asserted this shows the Respondent has over-valued the subject buildings.

[50] Hall used the Marshall Valuation Service (MVS) manual to estimate the DCRN for the Phase I and Phase II buildings and argued that the subject buildings should be classified under Occupancy-Industrials, Light Manufacturing (494), Class-C, Type (Quality)-Average for the assembly shop (not including the office node) and the overhaul building (including the office node). Hall agreed with the Respondents classification for the assembly office except for the Type (quality) and argued the quality Type (Quality) should be Average. In so doing, Hall calculated the replacement cost new (RCN) at $22,807,077 and the DRCN at $19,614,086 for the Phase I and II buildings. A value of $37,088,186 was determined for the property as whole.

[51] For the Phase I building, Hall selected the Occupancy-Industrials, Light Manufacturing (494), Class-C, Type (Quality)-Average for the assembly shop (53,396 sq. ft.) and selected

Occupancy-Office Building (344), Class-S, Type (Quality)-Average for the three storey office pod (35,718 sq. ft.).

[52] For the Phase II building (107,685 sq. ft.), Hall selected the Occupancy-Industrials, Light Manufacturing (494), Class-C, Type (Quality)-Average.

[53] Hall argued that the Light Manufacturing (494) occupancy was selected rather than the heavy manufacturing (495) selected by the Respondent because the subject assembly shop and overhaul building are light manufacturing. Class-C was selected because the buildings have tilt-up concrete panels and Type-Average was selected because the buildings are of average quality.

[54] Hall argued that a good example of a Heavy Industrial (495) building is the Battle River electric power generation facility in the County of Paintearth and in comparison to the subject, the occupancy of Light Industrial (494) is most appropriate for the subject property.

[55] For the office pod, Type-Average was selected rather than Good because internally it has average quality finishing except for the main floor which includes a good quality reception area. The three storey office node in the Phase II building is included as part of Occupancy-494.

[56] In calculating the DRCN for each building, adjustments were calculated to reflect the differences between the characteristics included in the base rate and the characteristics in the subject buildings, such as heating, craneways, floor structure, etc. and multipliers were applied to reflect the cost as of July 1, 2012, the assessment valuation date. A negative adjustment was made for GST (Goods & Services Tax).

[57] The RCN was determined to be as follows.

| | |
|---|---|
| • Phase I Office Pod | $ 4,914,357. |
| • Phase I Assembly shop | $ 7,759,543. |
| • Phase II Overhaul Building | $10,133,177. |
| Total | $22,807,077. |

[58] Depreciation of 14% was applied using the MVS depreciation tables to reflect that the subject buildings are twelve years old; accordingly the DRCN was determined to be $19,614,086.

[59] The valuation for the cranes was amended by adding $513,900 to account for six additional ten ton bridge cranes which was not accounted for by the Respondent.

[60] The indicated total DRCN for the subject property was determined to be as follow.

| | | |
|---|---|---|
| • Phase I & II buildings | $19,614,086 | |
| • Additional bridge cranes | $ 513,900 | |
| • Bridge & jib cranes | $ 2,349,600 | (as per assessment) |
| • Paint booths & water reclamation system | $ 491,000 | (as per assessment) |
| • Wash, security & Seacan buildings | $ 1,173,600 | (as per assessment) |
| • Land value | $12,946,000 | (as per assessment) |
| Total | $37,088,186 | |

**RESPONDENT:**

**a. Gettel's Report**

[61] The Respondent's appraiser, B. Gettel (Gettel) of Gettel Appraisals Ltd., prepared a commentary report on the appropriate appraisal methodology for the subject property, the Respondent's assessment of the subject property and the evidence submitted by the Complainant.

[62] Gettel concluded that the DRCN method would be the most reliable indicator of value for the subject property because of its unique characteristics, the improvements are relatively new and as such there is no significant deterioration and the industrial market in Red Deer is in equilibrium which means there is a high degree of consistency between the cost of construction and market value of a building.

[63] Gettel commented that the direct sales comparison method is often a preferred method of valuing property that is owner occupied, such as the subject. However the subject is an atypical industrial property and there are few similar properties in Red Deer and no sales of similar properties in Red Deer. Therefore sales of similar properties from outside Red Deer should be considered. Gettel concluded that this method of valuation has limited applicability to the subject property.

[64] Gettel commented that the capitalized income method also has its challenges because properties such as the subject are owner occupied and it is difficult to estimate the market lease rate. However, in recent years, properties, some similar to the subject, have sold to Investment Trusts who have leased-back the property to the previous owner/vendor. While the subject is an atypical property, it was opined that the income method can be considered to value the subject.

[65] Gettel concurred with the Respondent's rating of the subject Phase I and II buildings as Industrial, Heavy Manufacturing, Code 495, Class S, Type-Good for the assembly shop (Phase I) and the fabrication shop (Phase II) and Office building code 344, Class-S, Quality-Good for the office nodes at both Phases.

[66] The subject buildings were designed, constructed and used for heavy manufacturing by the previous owner and the current owner/occupant uses the subject buildings for the assembling and overhauling of heavy industrial equipment which matches the occupancy description under Code 495 in the MVS manual of *"heavy frames, walls, and floors typical of specialized manufacturing processes - - -."*

[67] Gettel agreed with the rating of Class-S for both buildings by the Respondent as both buildings have a steel frame and tilt-up concrete panel construction which matches the description in the MVS manual.

[68] Gettel noted that the Respondent allocated 10% depreciation to both buildings based on Alberta Assessment Manual depreciation tables by using the 60 year economic-life and actual age of 12 years. An alternative would be to use the MVS manual depreciation table which shows a 50 year economic life for the subject rating of heavy industrial. Based on an effective age of 12 years, the tables indicate a depreciation allowance of 8% or if based on an economic life of 60 years, the tables indicate an allowance of 4%. Gettel concluded that the Respondent depreciated both buildings realistically.

[69] Gettel gave consideration to two other sources of cost information, Scott Builders and Cuthbert Smith, to *"assist in qualifying the overall validity"* of cost determined by the Respondent.

[70] Scott Builders, who constructed the subject buildings for the previous owner, provided to the Respondent a current cost estimate of $43.25M to construct the two main buildings, which does not include any cost for the cranes and craneways. Gettel asserted this estimate is supportive of the RCN determined by the Respondent of $45,695,678 (not depreciated).

[71] Cuthbert Smith completed a replacement cost analysis for insurance purposes for both buildings for the subject owner in January, 2008 at $32,535,394, which does not include any cost for the cranes and craneways. Gettel time-adjusted this cost to July, 2012 by considering the Cuthbert Smith guides and the MVS manual comparative cost multipliers and concluded that a factor of 15.8% is realistic. The time-adjusted replacement cost was determined to be $37,675,986.

[72] Gettel noted that the Garcelon's appraisal is based on a gross building area of 225,676 sq. ft. for all the buildings versus the Respondent's area of 209,118 sq. ft. and that the appraisal did not include a value for cranes and craneways, paint booths and water reclamation system. In reviewing the appraisal, Gettel took exception with the derivation of the market rental rate and selection of the vacancy and collection allowance.

[73] Gettel opined that the rental rate of $12.00 per sq. ft. selected by Garcelon is not well supported. On reviewing the five lease rate comparables from Edmonton and Calgary and one from Red Deer, Gettel noted that the information provided is incomplete, such as lease commencement dates, building ages, land areas and locations (within the respective municipality) and suggested the comparables are warehouse type buildings used for storage or distribution with minimal finish or amenities. The five lease rate comparables from Edmonton range from $5.18 per sq. ft. to $10.96 per sq. ft. for lease areas that range from 158,154 sq. ft. to 299,767 sq. ft. and the rate for the Red Deer lease is $23.21 per sq. ft. for an area of 36,740 sq. ft.

[74] Gettel gave consideration to twenty lease rate comparables; nine from Red Deer, six from Red Deer County, two from Leduc and three from Edmonton. The lease rates range from $9 to $25.90 per sq. ft. with most that range from $12.00 per sq. ft. to $15.00 per sq. ft.; the leased areas range from 8,000 sq. ft. to 68,171 sq. ft. in single tenant industrial buildings.

[75] Twelve of the comparables range from $12.00 per sq. ft. to $15.00 per sq. ft., five comparables range from $18.00 per sq. ft. to $25.00 per sq. ft. and three comparables are at $10.00 per sq. ft. Most weight was given to the five comparables because they are overhaul or manufacturing facilities with low site coverage.

[76] Of the five comparables, three comparables are properties that were leased back to the vendor at lease rates that range from $13.50 per sq. ft. to $19.13 per sq. ft. for lease areas that range from 68,171 sq. ft. to 60,760 sq. ft. and two comparables were built to suit the owner's operation at lease rates that range from $21.97 per sq. ft. to $25.90 per sq. ft. for lease areas that range from 65,000 sq. ft. to 21,499 sq. ft. Gettel rationalized that a market rental rate of $19.00 per sq. ft. would be applicable for the subject property.

[77] Gettel opined that a vacancy and collection loss allowance of 1% is realistic for the subject property. Gettel noted that Soderquist did a market survey of vacant industrial space in 2012 and reported that overall vacancy for Red Deer area was 3.33% and the vacancy within Edgar Industrial Park was 2.01%. Gettel opined that if Finning was a potential tenant of the subject property, a vacancy allowance of 1% could be allowed to recognize the covenant of Finning.

[78] Gettel agreed with Garcelon's selection of a 7.5% Cap Rate. Based on the $19.00 per sq. ft. market rent rate, 1% structural repair allowance and 1% vacancy allowance, Gettel derived a value of $55,650,000 (rounded).

[79] Gettel reviewed Garcelon's nine sale comparisons; one from Red Deer, one from Edmonton, one from Sherwood Park and six from Calgary. Gettel commented that most of the sales are industrial investment properties, have no special features, have high site coverage, have lower wall heights and are of lower quality.

[80] Garcelon placed most weight on two of the sale comparables, one in Edmonton which sold for $139 per sq. ft. and one in Red Deer which sold for $108 per sq. ft.

[81] Gettel commented that the Edmonton sale is for a property which has 290,883 sq. ft. in eleven buildings on 69.19 acres of land (3% site coverage). This is not a reasonable comparable as it is not similar to the subject in terms of occupancy; it is conventional light to medium industrial space with some commercial utilizations.

[82] Gettel had no comments on the sale from Red Deer's Edgar Industrial Park, which sold in March, 2011 for $108 per sq. ft., because no information was provided in Soderquist's original appraisal report but was provided in a corrected report.

[83] Gettel concluded that the sale comparables used by Garcelon are *"non-comparable properties and does not provide a realistic indication of value."*

[84] Gettel commented on two aspects of Hall's replacement cost estimate; the categorization of the subject buildings as conventional light industrial facility (occupancy) and the amount of the depreciation allowance (economic life).

[85] Gettel acknowledged that determining the appropriate occupancy using the MVS manual is a judgmental exercise and the best way to determine the accuracy is to compare the results with other costing information; in this case, to Cuthbert Smith who estimated the RCN for Phase I building at $17,609,767 versus the estimate by Hall at $12,673,900, for Phase II building at $14,925,627 versus Hall's RCN estimate at $10,133,177 and the quoted cost by Scott Builders for both Phase I and II buildings at $43,250,000 versus Hall's RCN estimate at $22,807,077. Gettel commented that the differences in the values are too significant and asserted Hall's estimates are "ill founded."

[86] Gettel commented that an economic life of 40 years is too low in consideration of the quality of the subject buildings. The MVS manual depreciation tables indicate a 40 to 50 year economic life for good quality light industrial buildings and 50 to 60 years for good quality heavy industrial buildings and most analysts use 45 to 50 year economic life. Gettel opined that a forty year economic life is too low in consideration of the quality of the subject.

**b. Sveinson's Evidence**

[87] The Respondent's witness, T. Sveinson (Sveinson) of Sveinson Consulting Engineers Ltd., provided an overview of the subject buildings from an engineering perspective by reviewing construction drawings supplied by the Respondent.

[88] Sveinson asserted the two main buildings, Phase I and Phase II, contain many special and unique features that distinguish it from typical industrial properties. Sveinson commented

that the subject buildings are classified by the Alberta Building Code as medium hazard industrial shop and are required to be fully sprinklered and constructed with either fire rated combustible construction or non-combustible construction or a combination of both. The subject buildings are constructed with a structural steel frame and concrete filled steel deck, which is non-combustible construction.

[89] The foundation drawings show very sizable pile loading indicating that heavy crane loads were expected. The drawings for the Phase I building show the main frame roof columns do not directly support the crane loading; each crane level is supported by a separate column because of the two tier crane system. The runway beams are large and expensive due to the large crane capacity.

[90] For the Phase II building the drawings show the main frame roof columns are very large and directly support the crane loading. Also, there are several 1 ton jib cranes which are attached to the building columns.

[91] Sveinson designed a large sliding concrete door for the overhaul building, which weighs 30 tons, that is supported by a truss/beam spanning between two columns. This door is used to block radiation from escaping the radiographic room where all welds are tested.

[92] In both buildings there are several oversize doors that measure 29 ft. by 28 ft. and 30 ft. by 16 ft. in addition to typical size doors of 8 ft. by 8 ft. and 22 ft. by 20 ft. The oversize doors are special order items and can cost as much as $45,000 each versus a typical light industrial door at $10,000.

[93] In summary, Sveinson opined that the subject is a very large facility with specialized processes performed on very large pieces of industrial equipment and machinery which requires the building construction to meet very restrictive building code requirements. And the large building area, large crane capacity and radiographic facility make the subject a special use heavy industrial operation.

### c. Meckling's (Property Assessor) Cost Estimate

[94] The Respondent's property assessor, Ms. Meckling (Meckling), submitted that the subject property is a heavy industrial facility that was specifically designed and constructed for the previous owner, Collicutt Energy Services Ltd. in the year 2000. These buildings were used for the manufacturing and refurbishing very large and heavy power generation and oil and gas compression units weighing up to 400,000 pounds. The current owner (Complainant), Finning International, uses the buildings to overhaul machines, prepare new equipment, repair track frames and components for the massive Caterpillar equipment servicing Alberta's oil sands industry. [95] Meckling stated that the subject buildings can accommodate heavy equipment and machinery and support the unusually large lifting capacity of the overhead cranes (22 bridge cranes and 9 jib cranes) which have a total lifting capacity of 371 tons. The wall heights

range from 44 ft. to 50 ft. with numerous (19) oversized overhead doors (28 ft. by 29 ft.) and several regular sized doors (20 ft. by 20 ft. and 22 ft. by 26 ft.).

[96] Meckling asserted there are no comparable properties similar to the subject within the City of Red Deer and therefore the subject property cannot be valued by using the direct sales comparison method. The only alternative was to value the subject by using the DRCN.

[97] Meckling submitted that the Guide to Property Assessment and Taxation in Alberta, published by Alberta Municipal Affairs, supports the use of the cost method of valuation where:

> *i) The property being valued is new or nearly new;*
> *ii) In situations where few comparable sales are available; or*
> iii) *When improvements are unique or specialized.*

[98] In rebuttal to the Complainant, who argued that the subject is not a special purpose property but a typical industrial property, Meckling argued that the subject is a special use or special purpose property with a limited market. Three distinctions were provided for different types of special use or special purpose property and it was asserted that the subject is best described as meeting the following description or having the following distinctions.

> "Special purpose properties having a "limited market" for the special purpose use (i.e. properties that do not frequently exchange on the open market but for which real and hypothetical willing buyers, other than the current owner, do exist), as well as a real or hypothetical market for an alternate use."

[99] Meckling argued that the property is relatively new, the improvements are of superior construction, are in very good condition and approximately $5M was spent in construction and alterations, such as the oversize doors and loading ramp, subsequent to the purchase by Finning in November, 2008.

[100] In valuing the subject, Meckling used the MVS Commercial Estimator software program. Because of the massive foundation, heavy steel frame, and the many special and unique features, the subject buildings were classified under Occupancy- Industrial Heavy Manufacturing (495), Class-S, Rank (Quality)-Good for the shop space and under Occupancy-344 Office Building, Class-S, Rank (Quality)-Good for the office space.

## <u>BOARD FINDINGS</u>:

[101] At the beginning of the hearing, the Complainant outlined their position that the valuation of the two main buildings, Phase I (Assembly) and Phase II (Overhaul) are valued in excess of their market value as indicated by the property appraisal and the DRCN calculations and alleged that the Respondent has not used the appropriate classification (occupancy code) from the MVS manual.

[102] The Complainant disputes that the subject property is a special purpose property, as claimed by the Respondent, and contended that it is a typical industrial property. Therefore, its market value can be determined by using the capitalized income method and/or the direct sales comparison method.

[103] In support of the contention, the Complainant provided a property appraisal report by Soderquist Appraisals Ltd. and the author of the report, Mr. A. Garcelon, attended the hearing in support of the report. The appraisal estimated the value of the subject property at $33,925,000 as of July 1, 2012. The estimate did not include a value for cranes, craneways, etc.

[104] The Complainant accepts that the subject property is not a manufacturing or processing facility as contemplated by Section 1(j) of the Matters Relating to Assessment and Taxation Regulation (MRAT) and is properly assessed as a "structure" or "any thing attached or secured to a structure ---" according to Section 284(1)(j)(i) and (ii) of the MGA.

[105] The Complainant also accepted the assessed value for the parcel of land ($12,946,000) and the Wash Bay, Seacan Building, Security House, ($1,173,600), Fencing and Paving ($185,900) and Machinery and Equipment (M&E) ($2,840,600). However, the Complainant disputed the assessed value for the two main buildings of $41,126,100.

[106] The Board determined that to understand the relationship of the appraised value to the assessed value for the subject, the assessed value for the M&E of $2,840,000 was added to the appraised value for a total $36,765,600. This contrasts the total assessed value of $58,272,200.

[107] The Complainant focused their contention on the value of the Phase I and II buildings. The value for the Land ($12,946,000) and the Wash Bay, Seacan Building, Security House ($1,173,600) was subtracted from the appraised value ($33,925,000) which resulted in an indication of the appraised value for the two main buildings of $19,619,500. This contrasts the assessed value of $41,126,100.

[108] The Complainant provided a DRCN report prepared by Mr. C. Hall of AEC Property Tax Solutions who attended the hearing in support of his cost report. Hall's value for the subject property by using the Marshall Valuation Service cost manual was determined to be $37,188,186 versus the assessment of $58,272,200. Of Hall's value, $19,614,086 is for the Phase I and Phase II buildings which are assessed at $41,126,100.

### Special Purpose Property

[109] The Board considered the arguments of both parties and the definitions for "special purpose property". The Dictionary of Real Estate Appraisal, Third Edition provides the following definition.

A limited market property with a unique physical design, special construction materials, or a layout that restricts its utility to the use for which it was built.

[110] The Market Value and Mass Appraisal Introduction – June 1998 describes special purpose properties as follows.

"Special-purpose properties are those that have unique designs, special construction materials, or layouts that restrict their ability to the use for which they were originally built. They have limited conversion potential. Examples are houses of worship, schools, museums, and public buildings. If a property's use is so specialized that there is no demonstrable market for it, but the use is viable and likely to continue, an estimate of value in use to the owner is the only alternative. Such an estimate is not necessarily an indication of value in exchange."

[111] The Board considered the criteria for the use of the DRCN Method of Valuation as provided in The Guide to Property Assessment & Taxation in Alberta which is as follows.

*(a) The property being valued is new or nearly new*
*(b) In situations where few comparable sales are available*
*(c) When the improvements are unique or specialized*

[112] The Board finds that the subject is a limited market special purpose property. There are no sales of similar comparable properties in Red Deer and there are no comparables like the subject in Red Deer.

[113] Both the Complainant's and Respondent's appraisers asserted that sale and lease rate comparables outside Red Deer are available to use the income and sales methods to estimate a value of the subject property. The Board finds that it is appropriate to use the income and sales methods in addition to the cost method to estimate the value for the subject when sales and leases of similar properties from outside the City of Red Deer are available, as provided in evidence by both parties.

[114] In this case both parties presented numerous lease rate comparables and sales comparables, a limited number of which were considered by the parties to be similar to the subject, to estimate a sale rate and/or lease rate for the subject property.

[115] The limited availability of similar sale comparables and similar lease rate comparables outside Red Deer and the fact that there were no sale or lease comparables within Red Deer persuaded the Board that there is a limited market for the subject property.

[116] The Board is not convinced that the subject property is a typical industrial property. The Board finds that the subject property has characteristics that are not often found in typical industrial properties nor is the subject representative of typical industrial properties.

[117] The Board finds that typical industrial properties are most often significantly smaller in area than the subject, have greater site coverage, have significantly shorter wall heights, do not

have numerous cranes, do not have the significant foundations to support the high walls and the lifting capacity of the cranes and do not have the significant capacity to hold the weight of the massive equipment that is assembled and overhauled within the subject buildings.

[118] The subject assembly and overhaul shops have wall heights of 46 ft. and 44 ft. respectively versus typical wall height of 36 ft. or less. The foundations are comprised of atypical concrete piles that are capped with a three-foot thick concrete pilaster. There are 31 cranes with a total lift capacity of 364 tons and have 6 inch heavy reinforced concrete floors. These characteristics are not commonly found in typical industrial properties. The Board is convinced these characteristics make the subject atypical.

[119] Typical industrial property could be described as general purpose property that could have many different uses whereas atypical property has few uses, a single use or restricted use. In the subject case the buildings were specifically designed and constructed to fulfill the requirements of the previous occupant to manufacture heavy oil and gas compressor units and large power generation units. The current occupant is essentially using the buildings for a similar purpose, for the assembly and overhauling of heavy Caterpillar construction machinery. The current occupant utilizes the special features of the buildings in their operations; the heavy reinforced concrete floors to carry the weight of the machinery components and the fully assembled units, the cranes to move the heavy machinery components, the wall height to accommodate the crane lifting height and the oversized doors to move machinery components and to move the tall units of machinery into and out of the buildings. These characteristics are not found in typical industrial property. These characteristics describe an atypical property which sets it apart from a typical property and is properly categorized as a special purpose property or special use property.

[120] Most often the only way to value special purpose property is to use the DRCN method because there are no sale or lease comparables. Both appraisers demonstrated there are many comparables of typical industrial properties and there are few comparables similar to the subject. Gettel provided 20 lease comparables of which, five were considered similar to the subject. These comparables were identified as manufacturing facilities; however, are notably smaller in building area and have fewer cranes. Garcelon provided eleven lease comparables of which none were identified as similar to the subject. The limited number of similar comparables means that adjustments for the variance in the characteristics are more difficult to determine.

[121] The DRCN method would provide an estimate of value in use to the owner and may not provide an estimate of value in exchange or market value. However, when the market place is in equilibrium or in balance, when the cost of constructing a building is similar to the price of an existing building, the DRCN method will provide an estimate of value in exchange.

[122] Section (1) of MRAT requires that the subject land and improvements be assessed at its market value (value in exchange)

*MRAT "6(1) When an assessor is preparing an assessment for a parcel of land and the improvements to it, the valuation standard for the land and improvements is market value ---."*

[123] Both parties demonstrated the subject property can be valued by the income and sales methods. The Board agrees when there are sales or leases of similar properties that the two methods of valuation should be used in addition to the cost method. These two methods of valuation produce a more accurate market value or value in exchange whereas the cost method produces a replacement value or value to the owner. In this regard, the Board placed greater weight on Gettel's capitalized method as the comparables used were more similar to the subject property than the comparables used by Garcelon.

**Capitalized Income Method**

[124] The Board heard from both parties that there are no similar comparable properties in Red Deer but there are similar comparables outside of Red Deer; in Red Deer County, Edmonton and Calgary, some of which have sold and some of which are leased. The few that have either sold or leased, together with the sale of the subject, indicates that there is a market for property such as the subject but on a limited basis; there is not a preponderance of sales for atypical property as there is for typical or common industrial property.

[125] Based on this evidence, the Board is persuaded that because there are no comparables in Red Deer, it is reasonable to consider comparables from outside Red Deer and because there are leases and sales of similar property outside Red Deer, the Board finds it reasonable to value special purpose property, such as the subject, by using the capitalized income method and the direct sales method together with the DRCN method.

[126] The Board agrees there are challenges, as outlined above, in using the DRCN method however, all three methods of property valuation have their challenges, depending on the type of property and the information available. In the subject case, the Property Assessor determined a value for the land by using the sales method, which was not contested by the Complainant, and the replacement value for the improvements by using MVS manual. The assessed value for the improvements, other than the two main buildings, was accepted by the Complainant.

[127] The Complainant's appraiser, Garcelon, used the income method and sales method and derived an estimate of value for the subject property to the exclusion of the cost method because of *'the necessity of estimating a separate raw land value, and the difficulty in accurately measuring not only a current replacement cost for the improvements but also the various types of accrued depreciation.".* The Board does not agree with Mr. Garcelon that it is reasonable to discount the cost method in this case.

[128] The Complainant and the Respondent provided a DRCN estimate for the Phase I and Phase II buildings and provided their respective estimate of depreciation. The Board agrees that the DRCN method may produce misleading results however; as in this case, both parties provided replacement cost estimates by professionals, Hall for the Complainant and Meckling for the Respondent.

[129] The Board is persuaded that when sales and lease comparables are available, as in this case, it is appropriate to use the income and sales methods of valuing property in addition to the cost method. By using the three valuation methods, a final value estimate can be rationalized and correlated in consideration of the reliability of the data used in each of the valuation methods. The income and sales method of valuation can be used as a support and check of the DRCN method.

[130] Garcelon used two valuation methods, the capitalized income method and direct sales comparison method, to derive an estimate of $33,595,720 and $33,851,400 respectively, which resulted in a final estimate of value of $33,925,000. This estimate did not include a value for the cranes, craneways, etc.

[131] Garcelon used five lease rate comparables from outside Red Deer and six lease rate comparables from within Red Deer. The rental rates of the comparables outside of Red Deer range from $6.10 sq. ft. to $9.95 per sq. ft. for building areas which range from 158,154 sq. ft. to 299,767 sq. ft. The rental rates for the comparables within Red Deer range from $9.35 per sq. ft. to $23.21 per sq. ft. for building areas which range from 20,810 sq. ft. to 37,540 sq. ft. The Red Deer comparable which has a rental rate of $23.21 per sq. ft. was given no weight by Garcelon because it was signed in October, 2012 which was considered post-facto the assessment valuation date of July 1. Therefore the rental rate range is $9.35 per sq. ft. to $14.53 per sq. ft.

[132] Garcelon rationalized that in consideration of the very good quality and size of the subject property, a rental rate at the upper end of the range of both sets of comparables is suggested and therefore estimated the market rental rate for the subject property at $12 per sq. ft. of building area and together with a 5% vacancy allowance, 1% structural allowance and 7.5% Cap Rate determined the capitalized income market value to be $33,959,720.

[133] The Board is not convinced that the market rent rate determined by Garcelon is reasonable. Insufficient information was supplied for each of the comparables and therefore the Board is not able to make a reasoned comparison to the subject property. Garcelon did not provide any lease commencement dates, any land areas, any site coverage data and some of the building ages, building wall heights, overhead door sizes or amount of office space.

[134] Based on the information provided, the Board finds Garcelon's lease rate comparables are not sufficiently similar, to infer a rental rate for the subject property. One of the five comparables outside Red Deer has a 30 ft. ceiling height and one of the six comparables from within Red Deer has a 20 ft. ceiling height and no cranes are shown for any of the comparables.

[135] The only characteristic of the comparables that is similar to the subject is the building area of the five comparables outside of Red Deer, with an average of 228,960 sq. ft. Otherwise the Board finds the comparables have no similarity to the subject. The Board believes these comparables are of typical industrial properties. As opined by Gettel, the comparables primarily relate to storage or distribution type space and are not reasonable comparables to the subject. Based on the foregoing the Board finds Garcelon's capitalized income valuation is not acceptable.

[136] The Respondent's appraiser, Gettel, determined a capitalized income value for the subject of $55,650,000 based on a rental rate of $19.00 per sq. ft. Gettel considered 20 lease rate comparables, of which nine are from within Red Deer and 11 are outside Red Deer; Red Deer County, Leduc and Edmonton. The lease rates range from $9.00 per sq. ft. to $25.90 per sq. ft. for building areas that range from 5,212 sq. ft. to 68,171 sq. ft. with most rates in the range of $12.00 per sq. ft. to $15 per sq. ft.

[137] Gettel placed most weight on three comparables from outside of Red Deer which have a overhaul or manufacturing component and low site coverage. These comparables have lease rates ranging from $18.45 per sq. ft. (60,760 sq. ft. building) to $25.90 per sq. ft. (21,499 sq. ft. building) and building areas which range from 11,950 sq. ft. to 60,760 sq. ft. From the three comparables, Gettel concluded the market rental rate to be $19 per sq. ft. for the subject and together with a 1% vacancy allowance, 1% structural allowance and 7.5% Cap Rate and determined the capitalized income market value to be $55,650,000.

[138] The Board finds Gettel's selection of three lease rate comparables reasonable. The comparables are similar in type, being manufacturing facilities, similar in age, and have cranes. The significant difference of these comparables are the building areas of 11,950 sq. ft., 21,499 sq. ft. and 60,760 sq. ft. versus the subject at 224,118 sq. ft. and the wall height that is available for one, at 34 ft. to 36 ft. versus the subject at 44 ft. and 46 ft.

[139] The Board notes that some of the information for these comparables is incomplete; some building wall heights were not provided, and for some comparables the number of cranes and their capacity were not provided and some site coverage factors were not provided. Additionally, no detailed analysis was provided to show how and by what amount the differing characteristics affected the estimated rental rate for the subject. The subject has some very significant characteristics, such as the building wall height, number of cranes and their capacity, the capacity of the floor, the oversize overhead doors and the significant foundations.

[140] Notwithstanding the fact that the information was incomplete, the Board finds the three comparables support Gettel's rental rate of $19 per sq. ft. on a subjective basis.

**Direct Sales Comparison Method**

[141] Garcelon, in applying the direct sales comparison method, provided nine sale comparables and determined the estimated sale price for the subject to be $150 per sq. ft. of building area which applied to 225,676 sq. ft. resulted in an indicated market value of $33,851,000. This estimate does not include any value for the cranes, etc.

[142] Of the nine comparables, one is from Red Deer, two are from Edmonton and six are from Calgary. The Board finds eight of the comparables, which includes the one from Red Deer, are not similar to the subject property. Based on the sale details provided by Garcelon and additional information provided by Gettel, these comparables are of typical industrial property.

[143] The information provided shows most of these comparables are multi-tenant properties, several have high site coverage at 44%, and some have wall heights ranging from 18 to 30 ft. The Calgary comparable at 2600 Portland St SE is shown as multi-tenant with 44% site coverage and owned by Capital City Shopping Centre Ltd. These and the other characteristics are not similar to the subject. None of these comparables are shown to be industrial manufacturing with wall heights at 44 ft. and 46 ft. and numerous cranes with large lifting capacities.

[144] Garcelon placed most weight on two comparables, the Red Deer comparable which sold in December, 2009 for $108.00 per sq. ft. and one Edmonton comparable which sold in April, 2010 for $139.00 per sq. ft. and subjectively adjusted these indicators upwards to recognize they are inferior to the subject that resulted in selecting a rate of $150.00 per sq. ft. for the subject property.

[145] The Edmonton comparable consists of eleven buildings with 41 bays of light to medium industrial space and some commercial space. The Red Deer comparable, although close in proximately to the subject, is described as a service facility (shop with wash bay and service pits) with maximum wall height of 35 ft. and no overhead cranes. The Board finds these comparables are of typical industrial properties which have no special or outstanding features such as the subject. The Board finds these comparables are not similar to the subject and therefore not reasonable comparables to infer a selling price of $150.00 per sq. ft. for the subject.

[146] The Board notes one comparable from Edmonton (Sherwood Park) appears be similar to the subject. It is described as a heavy industrial manufacturing/overhaul complex which consists of 100,000 sq. ft. of building area constructed in 1981 with ceiling height of 20 ft. to 35 ft. situated on 69 acres of land, site coverage of 3%, nine overhead cranes and numerous jib cranes. This property sold in August, 2010 for $174 per sq. ft. of building area and is leased at $16 per sq. ft. However, it is 20 years older than the subject, less than half the size of the subject and has significantly less site coverage at 3% than the subject at 13%. Overall this comparable is inferior to the subject and therefore the selling price would have to be adjusted to reflect the characteristics of the subject. An adjustment should be made for the age, site

coverage, number of cranes, wall height and location and size. The Board is not convinced by this comparable that the selected sale price of $150.00 per sq. ft. is reasonable.

**Replacement Cost Estimate**

[147] The Complainant's cost estimator, Hall, provided a DRCN estimate for the two main buildings which includes the office buildings, Phase I-Assembly and Phase II-Overhaul , by using the Marshall Valuation Service (MVS), Calculator Method. The Respondent's cost estimator, Ms. Meckling, also valued these buildings using the same cost manual by using the Commercial Estimator program, a computer based program.

[148] Hall contested Meckling's classification of the buildings as Industrials, Heavy (Process) Manufacturing (495), Class-S (Steel), and Type-Good (Rank 3). Hall claims that the appropriate classification should be Industrials; Light manufacturing (494), Class-C (Concrete), Type-Average (Rank 2) because the buildings are as follows.

- *The Industrial buildings are tilt-up concrete – not steel,*
- *The buildings are light manufacturing – not process buildings, and*
- *The buildings, nice as they are, are strictly average for their type*

[149] The MVS manual states that *"Industrial buildings are designed for manufacturing processes"* and provides the following occupancy description for Industrials, Heavy.

- ***Heavy Industrials** are characterized by their heavy frames, walls and floors typical of specialized manufacturing processes and power or utility plants.*

[150] The Board accepts that a good example of a Heavy Industrial (495) building is the Battle River electric power generation facility in the County of Paintearth, however does not accept that in comparison to the subject, the occupancy of Light Industrial (494) is most appropriate for the subject property.

[151] The Board notes that the MVS description indicates that the Heavy Industrial (495) applies to two kinds of occupancies; one being the specialized manufacturing process and the other being power or utility plants.

[152] The Complainant advised that they accept the subject facility is not a manufacturing or process facility as outlined in Section 1(j) of MRAT. Therefore it is not necessary to value the "machinery and equipment" separate and apart from the other improvements located on the site to meet the requirements of the legislation. Technically the machinery and equipment referred to by the Property Assessor would be properly referred to as structures or anything attached to or secured to a structure or in an assessors' language, buildings and structures (B&S).

[153] The Board reviewed the MVS class of construction indicators, quality of construction indicators, the drawings and photographs provided in evidence by both parties. This evidence

together with the evidence of Mr. Sveinson persuaded the Board the classification selected by the Property Assessor is most appropriate. The evidence clearly shows the assembly shop and overhaul shop of the two main buildings have extensive and massive foundations, have a steel structural frame, and have concrete sandwich panel and steel panel walls.

[154] The Board heard from Sveinson that the subject has special concrete piles and noted on the drawings that under each steel column are as many as four reinforced concrete piles that are capped with a reinforced concrete pilaster that is three feet thick. These foundations are designed and constructed to support the building and the very heavy loading of the cranes. The Board finds this evidence supports the MVS description of a heavy industrial building.

[155] Both parties made reference to the steel columns and beams within the buildings and asked the Board to note the massive size of some of the columns that support the craneways and bridge cranes and some of the columns that support the walls and roof. The Board noted the roof structure is comprised of steel decking on steel joists which span the length of the building on steel beams which span the width of the building. This evidence supports the fact that the subject building is Class-S (Steel) building.

[156] The Board is persuaded by Sveinson's evidence that the pre-cast concrete sandwich panels do not support the roof structure; the roof is supported by the steel columns. The concrete sandwich panels are none load bearing, they are attached to the steel columns and beams, which bear the roof load. These panels enclose the structure. This evidence convinced the Board that Class-S (Steel) is most appropriate.

[157] The MVS manual under Heavy Industrial, Class-S and C, Type-Average and Good describes the interior finish includes craneways whereas under Light Industrial the interior finish description does not include craneways. The segregated cost section of MVS under Craneway Spans says *"Crane runways bracketed or braced to the buildings' column framing members cost $135 to $285 per lineal foot each. For freestanding, self supporting runways, add 50% to 80%."*

[158] The Board understands that the craneways consists of the beams and the supporting columns, whether integral with or independent of the building columns on which the bridge cranes operate. Because the MVS includes craneways under Heavy Industrial, the Board believes that the cost of the extra foundation required to handle the runway load capacity is also included in the base rate.

[159] Both parties made reference to an inventory of the cranes provided in evidence which showed the number of cranes, the type of cranes, the capacity of each crane and the span of each bridge together with the number of craneways, capacity, and length and indicated whether they are bracketed or free standing. The Board notes that two craneways in Phase I are described by Finning as being bracketed (attached to the steel columns) on one side and free standing (independent steel columns) on the other side and the two craneways in Phase II are bracketed on both sides.

[160] At the hearing the Board heard that the craneways in Phase I are freestanding and the craneways in Phase II are bracketed. Either way, the cost should be captured when calculating the replacement cost. The MVS segregated cost for craneway spans provides examples for 2 to 25 ton capacities whereas the subject capacities are 40, 80 and 90 tons. MVS does not provide any costs for the subject capacities however; to account for the runways and their capacities Hall extrapolated a cost and added it to the light industrial base rate. Meckling captured the cost of the runways in using the heavy industrial occupancy. Hall did not provide any evidence to establish that the value that was added for the craneways was sufficient or correct.

[161] Hall disputes the Assessors' Type (quality ) of Good (Rank 3) for both the office and shop portions of both buildings and opined the ranking should be Type-Average (Rank 2) because the subject buildings are average for their type and the walls are identical to average larger warehouses with simple, low-cost, tilt-up, concrete sandwich panels or steel siding.

[162] The Board notes that MVS describes Class-S, Type-Average exterior walls as "steel or aluminum siding" and Class-S, Type-Good exterior walls as "sandwich panels". The walls of subject buildings, except for the office portion of Phase I building, are tilt-up concrete sandwich panels (approximately 30 ft. high) and steel panels (approximately 16 ft. high). This fact is supported by Sveinsons' oral evidence and the answers provided to the Board's questions by both parties. The photographs in evidence also show that the lower two thirds of the exterior walls of the shop areas are concrete and the upper one third is steel panels. The walls of the main office (Phase I) are structural silicone glazing and the walls of the Phase II office are the same as the shop portion. The Board finds this evidence is indicative of good quality as described by MVS.

[163] The Board is of the opinion that the subject buildings are appropriately rated as good quality. The Board finds this finding is supported by Mr. Sveinson's evidence wherein he states the two shop buildings are classified as medium hazard industrial shops according to the Alberta building code. The two buildings are "required to be fully sprinkered and be constructed with non-combustible construction (steel or concrete)". The subject shop portions are single storey with heavy concrete slab floor on grade as described under Good in MVS. The Board believes it would not be reasonable to expect steel grating floors in the subject as could be expected in a multi-storey building such as the Battle River power facility.

[164] Hall took issue with the 10% depreciation allowance in the assessors' value calculations and argued the correct depreciation rate for the two main buildings, with an effective age of 12 years, is 14%. The Board understands that the depreciation tables in MVS relate to the classification of the building.

[165] The MVS manual suggests the typical economic life for a light, average, industrial manufacturing building at 40 years (14% depreciation) and for a heavy, good, industrial manufacturing building at 50 years (8% depreciation). The assessor used the depreciation

tables from the Alberta Commercial Cost manual and selected the 60 year life (10% depreciation). The Board notes the Respondent's depreciation of 10% is equivalent to the 45 year life for a building 12 years in age according to MVS manual depreciation tables. Gettel opined that *"most analysts utilize economic life spans of 45 to 50 years. This once again is a judgemental area."* The Board, having determined that the appropriate classifications for the buildings are Heavy Industrial, finds the Respondent's depreciation rate to be reasonable.

[166] The Respondent testified that their MVS manual calculations did not deduct or remove the 5% for GST which is included in the manual rates and is consistent with all MVS manual calculations in Red Deer. The Complainant argued that the 5% for GST should be deducted from the RCN calculations because the City of Calgary makes this deduction from their MSV calculations and because GST is a tax and adds no value to the property. GST is an input tax credit which is offset against GST collected with no actual cost added for commercial purchasers. Gettel, for the Respondent, testified that he would not include GST in his calculations using the MVS manual. Based on the above evidence, the Board is not persuaded that GST of 5% should be removed from the MVS manual RCN calculations. Neither party provided sufficient information and explanation to show how GST is applied to construction costs and to show the net result after the "input tax credits" are applied.

[167] As mentioned previously, the Board believes that the DRCN value should be supported by one or both of the other two methods of valuing property when there are sales of comparable property and/or leases of comparable property. The Board accepts that the DRCN method is only acceptable method of valuing a special purpose property when there are no comparable sales either within Red Deer or outside Red Deer. In this case evidence was provided showing there are sale comparables and lease comparables available from outside Red Deer although, of the several comparables provided by both parties, the Board finds few comparables which are similar to the subject. This dearth of similar sale and lease comparables indicates there a limited number of sales or leases available to estimate the value for the subject which makes the subject a limited market special purpose property. Therefore the Board placed greater weight on the DRCN method of valuation than the income and sales methods.

[168] The estimates of value provided by both appraisers using the capitalized income method is significantly different; Garcelon at $33,925,000 and Gettel at $55,650,000 which the Board finds notable. The Board is persuaded to place more weight on Gettel's valuation because consideration was given to four lease comparables which are similar to the subject in terms of usage, existence of cranes, wall height; Red Deer County, 21,499 sq. ft. at $25.90 per sq. ft.; Leduc, 11,950 sq. ft. at $23.35 per sq. ft.; Edmonton, 56,579 sq. ft. at $19.13 per sq. ft.; Edmonton, 60,760 sq. ft. at $18.45 per sq. ft.

[169] Neither accredited appraiser included or considered any of the three Calgary sales provided in evidence by Smiley; 3 Freeport Way sold August, 2008 at $134.00 per sq. ft.; 6735 – 11 ST sold January, 2002 at $132.00 per sq. ft.; and 4700 – 47 ST (Enerflex) sold September, 2011 at $120.00 per sq. ft.

[170] The Board placed no weight on the Freeport sale because it has a site coverage ratio of 45% and is considered to be a distribution warehouse and no weight on the 11 ST sale because it is 20 years older than the subject and was part of a portfolio sale, one of several properties sold as one package. The 47 ST (Enerflex) sale is similar to the subject in most respects except it is 50% larger than the subject, at 316,369 sq. ft. versus 209,118 sq. ft. However, as stated previously, neither appraiser included or considered this sale in their analysis and therefore the board placed little weight on this sale in making its decision.

[171] The Board finds the Enerflex sale the most similar of all the comparables provided by both parties. It is a manufacturing facility that has characteristics similar to the subject; building area, building wall height, number of cranes, site coverage, office space and use (occupancy). However; the only evidence provided relating to the sale was the RealNet transaction summary. Neither party provided any robust argument regarding this sale comparable other than Gettel who commented on the building size and Smiley commenting on the sale price. Without more detailed information on this sale and its relevance to the value of the subject, the Board placed limited weight on it in making its decision.

[172] The Board finds both parties demonstrated there is a limited market for property similar to the subject therefore; consideration should be given to other indicators of value in addition to using the three methods of valuation. In this case, both parties made reference to three other indicators; the Transfer of Land, Affidavit of Value by Finning of $75M, the Cuthbert Smith cost estimate for insurance purposes of $32,535,394 and the Scott Builders estimate of $43,250,000.

[173] The current owner, Finning International, acquired the subject property through the share purchase of Collicutt Energy Services as a going concern for the reported consideration of $145M. The Affidavit of Value, which is part of the Transfer of Land, was signed by an officer of Collicutt declaring that in their opinion the value of the land is $75M (land includes buildings and all other improvements affixed to the land).

[174] The consideration paid by Finning was *"one ($1.00) dollar and such other consideration pursuant to a reorganization of the assets of the Transferor, who is an affiliated corporation of the Transferee."* The Board finds the purchase of the subject property was not a direct purchase, as agreed to by both parties; it was indirectly purchased through the share purchase of the company who was the owner of the subject property. The consideration paid is shown at $1.00 plus other good and valuable consideration versus the opinion of value which is declared at $75M. Because neither party provided any evidence to support the opinion of value and the opinion of value is subjective, the Board placed limited weight on it in making its decision.

[175] Cuthbert Smith, Professional Quantity Surveyors, is an Alberta company who generate an annual construction Cost Guide. They provided a RCN estimate on January, 2008 for the subject two buildings, Phase I and II, for insurance purposes at $17,609,767 and $14,925,627 respectively or a total at $32,535,394. This estimate does not include any value for the cranes.

[176] The Board was provided with one of several pages of Cuthbert and Smith's cost report and the Board understands this report is based on their construction guide; it is not based on the MVS manual. The Board finds this report indicates that either Hall under estimated the RCN or the Respondent over estimated the RCN for both buildings. However, the Board has no other evidence to support the Cuthbert Smith RCN estimate and therefore placed little weight on it in making its decision.

[177] The only evidence that the Board has to determine the correct time-adjustment factor for the Cuthbert Smith cost is the MVS manual. The MVS manual indicates an adjustment of 11.1%, resulting in a time-adjusted value of $36,146,822; significantly different that the assessor's RCN value of $45,695,678 and Hall's RCN of $22,807,077.

[178] The Respondent provided a cost estimate, which they obtained from Scott Builders, in June, 2013 for the Phase I and II buildings. Scott Builders constructed the subject facility for the previous owner and made alterations for the current owner. The cost estimate for both buildings is $43.25M (does not include depreciation) which is exclusive of any value for the cranes. This estimate contrasts Hall's RCN estimate of $22,807,077 and Meckling's RCN estimate of $45,695,678. The Board has no other evidence to support Scott's cost estimate and therefore placed limited weight on it in making its decision.

[179] The Board has no evidence to support Scott Builders' RCN estimate and therefore placed limited weight on it in making its decision.

[179] In summary, the Board finds the subject property is a limited market special use property that is appropriately valued using the DRCN method given the lack of reliable market evidence. In this case both parties provided evidence that there is some reliable market evidence of similar property however, many of the comparables were of typical industrial non-manufacturing properties.

[180] Both Garcelon and Gettel provided an income valuation however; both appraisers used significantly different rental rates because of the differing selection of lease comparables and neither appraiser gave any consideration to the Enerflex sale. The Board finds Gettel's lease comparables to be similar to the subject (atypical property), and Garcelon's lease comparables to be representative of typical industrial properties. Therefore more weight was placed on Gettel's valuation than Garcelon's.

[181] The Board finds that to capture the full cost of the main structures with the supporting footings and foundation, the MVS occupancy of heavy industrial (Code 495) is appropriate. This finding is supported by the evidence from both parties and most particularly from Sveinson's building drawings which show the number of piles, the weight bearing capacity of the piles and the pilasters. There is no one characteristic that makes the subject a special use/purpose, it is the several characteristics together with the quantity of the characteristics which persuades the Board the subject is a heavy industrial facility.

[182] The Board place little weight on the cost estimates of Cuthbert and Smith and Scott Builders estimate; however, finds they are indicative that the Respondent's RCN cost is more appropriate than the Complainant's.

## SUMMARY

[183] For the reasons noted above the assessed value of the subject property is CONFIRMED as follows:

Roll #3011545 $58,272,200

Dated at the City of Red Deer in the Province of Alberta this 24th day of October, 2013 and signed by the Presiding Officer on behalf of all three panel members who agree that the content of this document adequately reflects the hearing, deliberations and decision of the Board.

S. Parsons, on behalf of
M. Chilibeck, Presiding Officer

**This decision can be appealed to the Court of Queen's Bench on a question of law or jurisdiction. If you wish to appeal this decision you must follow the procedure found in section 470 of the Municipal Government Act which requires an application for leave to appeal to be filed and served <u>within 30 days</u> of being notified of the decision. Additional information may also be found at www.albertacourts.ab.ca.**

## APPENDIX "A"

Documents Presented at the Hearing
and considered by the Board

| NO. | ITEM |
|---|---|
| | COMPLAINANT'S MATERIALS |
| C-1 | Submission of Evidence to Assessment Review board |
| C-2 | Cost Report |
| C-3 | Legal Argument |
| C-4 | Rebuttal Cost Report |
| C-5 | Rebuttal Brief |
| C-6 | Revised Soderquist Appraisal |
| C-7 | Cam Hall's Revisions and Corrections |
| C-8 | Cam Hall's Curriculum Vitae |
| C-9 | Replacement Pages for C-1, Pages A81, A82, A86, A87 and an Additional Page A128a. |
| C-10 | Written Summary and Argument |
| C-11 | Written Rebuttal Summary and Argument |
| | RESPONDENT'S MATERIALS |
| R-1 | Summary of Witness Evidence of A. Meckling |
| R-2 | Submission of Evidence - Part 1 of 2 |
| R-3 | Submission of Evidence - Part 2 of 2 |
| R-4 | Dr. Sveinson's Evidence Submission |
| R-5 | B. Gettel's Evidence Submission |
| R-6 | Legal Argument |
| R-7 | A. Meckling's Sur-Rebuttal |
| R-8 | 2003 ABQB 996, Davidson v. Patten |
| R-9 | 2010 ABQB 130, Nelson v. Stelter |
| R-10 | Written Summary and Argument |

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| **Decision No. 0262-0544-2013P** | | | **Roll No. 3011545** | |
|---|---|---|---|---|
| **Appeal Type** | **Property Type** | **Property Sub-Type** | **Issue** | **Sub-Issue** |
| CARB | WAREHOUSE | PLANT | COST/INCOME METHOD | IMPROVEMENT VALUE |