

Notice of Decision

Hargwen Developments Inc.
Box 6420
Edson, Alberta
T7E 1T8

Regional Assessment Review Board
c/o Town of Beaumont
5600-49th Street
Beaumont, Alberta
T4X 1A1

This is a decision of the Composite Assessment Review Board (CARB) from a hearing held on October 29th, 2012, respecting a complaint for:

Roll Number	Municipal Address	Legal Description	Assessed Value	Assessment Type	Assessment Notice for:
003824	6701-31 st Avenue Beaumont, AB	Lot 1, Block 3, Plan 062 5744	\$4,010,900	Annual New	2012

This decision may be appealed to the Court of Queen's Bench on a question of law or jurisdiction, pursuant to Section 470(1) of the Municipal Government Act, RSA 2000, c M-26.

**Minutes of the Regional Assessment Review Board Meeting
Composite Assessment Review Board Hearing
held October 29th, 2012
in the Council Chambers of the Beaumont Administration Office**

Call to Order

The meeting was called to order at 9:36 a.m. on Monday, October 29th, 2012 by Chair, Peter Irwin.

In attendance were the Provincial Member Peter Irwin; Board members John Schonewille and Barry Rasch; Complainant, James Kazoleas, Hargwen Developments Inc.; and Respondent, Troy Birtles, Accurate Assessment Group.

Upon questioning by the Presiding Officer, the parties indicated that they had no objection to the composition of the Board. In addition, the Board members indicated that they had no bias in the matter, and confirmed they had only received the information package upon arrival at the Hearing.

Preliminary Matters

A request was made by the Complainant to present additional information at the hearing, which was denied by the Chair as it was not within the legislated submission dates. (In Alberta Regulation 310/2009 – *Matters Relating to Assessment Complaints* – section 9(2) states that: “a Composite Assessment Review Board must not hear any evidence that has not been disclosed in accordance with section 8.”)

Background

The subject property, described as roll number 003824, 6701-31st Avenue; Lot 1, Block 3, Plan 062 5744 in the Town of Beaumont, is a 66 unit residential affordable housing development. The taxation year is 2012, and the assessed value is \$4,010,900. The development construction started in May, 2011.

Issues

1. What is the correct approach for assessment of the subject property?
2. Is the assessed value of the subject property too high?

Legislation

The *Municipal Government Act* reads:

Municipal Government Act, RSA 2000, c M-26

s 467(1) An assessment review board may, with respect to any matter referred to in section 460(5), make a change to an assessment roll or tax roll or decide that no change is required.

s 467(3) An assessment review board must not alter any assessment that is fair and equitable, taking into consideration

- a) The valuation and other standards set out in the regulations,
- b) The procedures set out in the regulations, and
- c) The assessments of similar property or businesses in the same municipality

Position of the Complainant

1. The Complainant provided an overview of his case for the Board's review and consideration, describing it as a 66 unit affordable housing project. It was completed in cooperation with the Provincial and Federal governments and Hargwen Developments Inc. Construction began in May 2011 and at the Condition Date as of December 31, 2011 was 50% complete. It has had occupancy as of July 1, 2012.
2. The Complainant indicated that the government provides a grant for affordable facilities, which imposes restrictions on the amount of rents that can be charged, as well as who lives in the property.
3. The subject property is unique in that it is an affordable housing facility and there were no other appropriate sales comparables located in Beaumont.
4. If the cost value approach were used for all projects under construction, the Complainant requested that reconsideration be given in that this is an affordable housing project. In most cases, the cost approach is the same or less than the income approach. However, in this case there is a \$2 Million dollar difference on the completed project, which results in an unfair position.
5. The Complainant presented a table of rental rates from the agreement between Hargwen Developments Inc. and the Alberta Government. This showed rent rates for the different sizes and types of units in terms of average market rents and the rents that the project could charge (which are 10% below market).
6. The Complainant felt that an income approach for valuation should have been used, rather than a cost approach and presented a set of estimates as follows:

Gross rents	\$739,584
Less 7% vacancy rate	(\$51,770)
Less expenses (\$320/door/month/year	(\$253,440)
Net Operating Income (NOI)	\$434,374
Value, at a 7.5% Capitalization Rate	\$5,791,653
Assessed value at Condition Date (50%)	\$2,895,826
7. Upon questioning, the Complainant stated that the gross rents in the above calculation were derived by applying the project rents to each of the various types and sizes of units in the subject property.
8. The Complainant stated that he owns and operates other affordable housing projects in Edson and vacancy rates for affordable housing are 1 – 3% higher than in rental units in market housing.
9. To use the income approach, the Complainant submitted that you must determine what the actual gross income and vacancy rates are in order to assess the property. The subject building's vacancy rates are between 1 and 3% higher than a regular apartment building, due to the clientele and delinquent rent collections.

10. The Complainant spoke about the market cap rate of 6.4% and felt that the two comparables used by the Respondent were not fair, as they were not affordable housing facilities and were not located in Beaumont. As the Complainant did not feel the comparables were similar enough, he requested an addition of 1% to the 6.4% cap rate.
11. In rebuttal, the Complainant submitted that another Beaumont affordable housing complex (Villa Beauregard) could be considered for assessment comparison purposes and his understanding of the data was presented in support of the contention that the subject's assessment was too high. It is 35 units with a similar affordable housing project. A value on a comparative basis, established \$75,000 per unit – 10% (as the subject property has higher rents) for a total of \$82,975 per unit. This would result in the subject property having an assessed value of \$6,351,862.
12. In rebuttal, the Complainant also suggested two Edmonton properties could be looked at for assessment comparables.
13. The Complainant advised the Board that Hargwen Developments Inc. sold the subject property to 1514629 Alberta Ltd., on September 28th, 2012 for \$5,009,900 and that sale price should be considered in determining the assessment.

Position of the Respondent

1. The Respondent presented evidence and argument for the Board's review and consideration.
2. The Respondent clarified that most of the package submitted by the Complainant was in rebuttal to the Respondent, and confirmed that the Respondent received the information seven days prior to the hearing, not providing him with sufficient time to review the issues.
3. The Respondent stated that the sales comparable used by the Complainant was from September, 2012, which was outside the valuation period used for the 2012 assessments.
4. As stated on the original assessment complaint, the construction was 50% complete as of December 31st, 2011. It was also noted that the Complainant felt the assessment was incorrect as the income approach was not used. The income approach is used on properties in Beaumont, however not on properties that aren't fully constructed as there is not sufficient data. In cases where a property is under construction, the cost approach is used, based upon the building value.
5. The land value of the subject property is \$876,700. The subject property was purchased in March, 2011 for \$875,000, which translates to a sale price per acre of \$523,952. A similar property in Beaumont was used as a comparable for the land assessment and it was purchased in October, 2011 for \$1,100,000, which translates to \$493,273 per acre. The Respondent felt that the assessment of the subject property land was fair and equitable, as it was purchased for nearly the same amount as it had been assessed.
6. As a basis for assessing the improvement value, the Respondent submitted that the cost approach is used when a property is under construction. The Marshall & Swift costing manual is a widely accepted manual for calculating an assessment on a cost approach with a 20% allowance for incomplete items. The assessed value of the incomplete building is \$3.1 Million, and when complete, the assessment for the building is \$6.6 Million. (Appendix C & D).

7. It should be noted that the Respondent requested actual costs from the Complainant for the project, but the request was denied.
8. The income approach was not used in year one, however moving forward, as the building has been fully constructed, the income approach would be the valuation method used.
9. The Complainant has submitted monthly room rents, expenses which have capped the value at 7.5%. The perception that the Complainant gave was that the rents are set by the government. One of the suites in the subject property is rented at market. Believes that as the rents do change on an annual basis, they would increase, which is why the income approach was redone.
10. The Respondent used a company called The Network that collects information on the sale of income producing properties (Appendix E). The information collected was for 39 apartment buildings that sold in Edmonton and the surrounding area. Out of this information, two properties were used because of their similar size and age. Of all the sales, the average sales cap rate was 6.41% and the average monthly rent is \$1,173/month; average vacancy is 4%; the average cost per suite is \$336/month; and the average cap rate is 6.25%. With this information, the resulting income evaluation on the two properties was \$8,584,000.
11. It was necessary to determine how much of the \$8,584,000 was allocated for the building and how much was allocated for the land. The assessed value of the land was removed and the remaining was divided into two, which was equal to 50% of the value, resulting in an assessed amount of \$4,730,000. The subject property assessment is just over \$4 Million.
12. Direct sales comparables that the Respondent presented were similar properties located in Spruce Grove and in Edmonton. The same methodology was used as for the income approach, which resulted in a value of just over \$5 Million.
13. The Respondent had allowed for a 10% reduction in his calculations to recognize that the subject property was an affordable housing facility.
14. In summary, three approaches were used to support the assessment - cost approach (\$7.4 Million); income approach (\$8.5 Million); and direct sales comparison (\$9.2 Million); and at 50% complete they totaled - cost approach (\$4.1 Million); income approach (\$4.7 Million); and direct sales comparison (\$5 Million). All three approaches were higher than the current assessment of the subject property.

Decision

The Board's decision is to confirm the 2012 assessment of the subject property at \$4,010,900.

Reasons for the Decision

Issue #1: What is the correct approach for assessment of the subject property?

1. With respect to the particular assessment approach utilized by the Respondent, the Board finds that the cost approach is the appropriate one to use in this particular circumstance, given that the building was slightly less than 50% constructed at the time of the condition date. As there was no income upon which to make an assessment using the income approach, the income approach would not be appropriate for the 2012 assessment.

Issue #2: Is the assessed value of the subject property too high?

2. The Board accepts the calculations in the Marshall & Swift detail report, presented by the Respondent, as being a reasonable basis for the assessment, and notes that they were not refuted by the Complainant, nor were actual costs provided when they had been requested.
3. The Board finds that the information provided on the sale of the subject property in September 2012 is not a reliable indicator of value because no evidence was provided to indicate that the property had been exposed to the market and no information was provided to indicate that the transaction was at arms-length. Therefore, the Board places little weight on that sale information.
4. With respect to the Complainant's income approach, the Board notes that the evidence to support the suggested vacancy rate, expenses and Cap rate was lacking in sufficiency and therefore places little weight on it.
5. The Board finds that the Complainant's equity comparison information is not persuasive because it was not supported by evidence.

Dissenting Opinion

There was no dissenting opinion.

Adjournment

The Hearing was adjourned at 10:35 a.m.

Heard October 29th, 2012.

Dated this 27th day of November, 2012, at the Town of Beaumont, Alberta.



Peter Irwin, Presiding Officer

Appearances

James Kazoleas, Hargwen Developments,
Complainant

Troy Birtles, Accurate Assessment Group,
Respondent