

**COMPOSITE
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-26.1, Section 460(4).

between:

Altus Group Ltd., COMPLAINANT

and

The City Of Calgary, RESPONDENT

before:

C. Griffin, PRESIDING OFFICER

D. Julien, MEMBER

J. Mathias, 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 2010 Assessment Roll as follows:

ROLL NUMBER: 023127913

LOCATION ADDRESS: 6440 Centre Street NE

HEARING NUMBER: 57618

ASSESSMENT: \$47,510,000

This complaint was heard on 6th day of December, 2010 at the office of the Calgary Assessment Review Board located at Floor 4, 1212 – 31 Avenue NE, Calgary, Alberta, Boardroom 6.

Appeared on behalf of the Complainant:

- J. Weber Agent, Altus Group Ltd.
- B. Neeson Agent, Altus Group Ltd.

Appeared on behalf of the Respondent:

- K. Cody Assessor, The City of Calgary
- D. Satoor Assessor, The City of Calgary

Procedural or Jurisdictional Matters:

No preliminary matters were raised. The merit hearing proceeded.

It should be noted that this Board had previously heard numerous appeals on multifamily rental properties (including various townhouse complexes) involving the same Complainant and various City Assessors. For reasons of efficiency and to avoid undue repetition, it was agreed by both parties that many of the arguments and comments could be cross-referenced.

Property Description:

6440 Centre Street NE This property is, according to the 2010 City of Calgary Multi-Residential Detail Report, a 240 unit two storey townhouse complex which features 43 separate, but similar, buildings. The development contains 36 two bedroom units, 168 three bedroom units and 36 four bedroom units. The property was reportedly originally constructed in 1971. The property has been assessed with \$1250/mo. 2 bedroom rents, \$1350/Mo. 3 bedroom rents and \$1450/Mo. 4 bedroom rents together with a 3% vacancy allowance and an applied Gross Income Multiplier (GIM) of 14 which is modified by a 10% adjustment factor.

Issues:

While there are a number of inter-related grounds for complaint identified on the initial complaint form, the Complainant stated at the hearing that there are the following remaining issues to be argued before the CARB:

1. The assessed rents are in excess of market
2. The assessment fails to account for rental incentives which reduces the net rent
3. The assessed GIM is excessive in terms of market and equity

Complainant's Requested Value:

The Complainant revised their request as a result of an error on page 14 of their Exhibit C-1 to: **\$31,770,000**

Exhibits Presented

- C1 Complainant's evidence package
- R1 Respondent's evidence package

Board's Findings in Respect of Each Matter or Issue:

1. Rental rates

It is the contention of the Complainant that the rental rates applied by the Assessor are not indicative of the market rental rates for the subject property as at the Date of Value. In support of their rental rate argument, the Complainant introduced (Exhibit C-1 pgs 15 - 184) a rent roll for the subject property dated July 1/09 on which the Complainant has highlighted eight (8) leases for 2 bedroom units signed between Jan. 1/09 and July 1/09 which indicate a Median rent of \$1,149/Mo., thirty-three (33) leases for 3 bedroom units indicating a Median of

\$1,249/Mo. and eight (8) leases signed for 4 bedroom units which indicate a Median rent of \$1,349/Mo. The Complainant further introduced (Exhibit C-1 pg 43) an extract from the *Alberta Assessors' Association Valuation Guide* (AAAVG) which, under the heading *Determining Market Rents as of the Valuation Date* states "For most tenants the best source of market rent information is the rent roll. Using these rent rolls, the best evidence of "market" rents are (in order of descending importance): Actual leases signed on or around the valuation date." It is the contention of the Complainant that the aforementioned 49 leases are, in accordance with the AAAVG, the best evidence as to the market rents for the subject property as at the valuation date.

The Respondent defended the assessed rent rates for the subject property based on an undated copy of a rent roll for the property (Exhibit R-1 pgs 50 – 55) which indicates a Median rent of \$1,199/Mo. for the 2 bedroom units, \$1,279/Mo. for the 3 bedroom units and \$1,399/Mo. for the 4 bedroom units. Additionally, the Respondent provided (Exhibit R-1 pg 26) examples of two townhouse properties from the same market zone as the subject and which have been assessed using the same inputs for typical rents, GIM, vacancy and adjustment factor as has been applied to the subject.

The Board, in keeping with the AAAVG, finds the evidence of the Complainant to be more convincing as to the appropriate rental rates to be utilized in the preparation of the assessment for the subject property.

2. Rental Incentives

In support of their rental inducement argument, the Complainant introduced (Exhibit C-1 pgs 26 - 39) a summary of rental inducements offered by the property owner in return for one year leases for all of their Calgary properties, including the subject property. It should be noted that the owner of the subject property is the largest residential apartment landlord in the City and indeed in the entire country. These lease inducements indicate a \$100/month rental reduction granted upon the signing of a one year lease for one of the units in the subject property. The Complainant further introduced (Exhibit C-1 pg 44) a further extract from the AAAVG which, under the heading *Rent Adjustments - Inducements* states "Inducements must be considered when establishing the appropriate market rent for the space. The value of the inducement spread out over a reasonable term should be deducted from the base rent." The Complainant also introduced (Exhibit C-1 pg 54) a definition of *Common Net Effective Rent* as prepared and approved by the *Real Property Association of Canada* (RealPac) and the *Appraisal Institute of Canada* (AIC) which states "Common Net Effective Rent is the true Rent related to a certain lease transaction, based on the present value using the common discount rate, of all Rent receivable by a Landlord over the initial fixed term, less the present value of all tenant inducements, free rent periods and commissions payable, with such remainder present value then amortised over the fixed initial lease term."

In keeping with the directive of the AAAVG, the Board agreed with the Complainant that a \$100 per month deduction for rental incentives should be applied to the face rents in calculation the EGI.

3. GIM

Simply put, the GIM is a multiplier that brings a property's revenue stream (EGI) up to an appropriate market value based on recent arm's length sales of similar properties. At least, this would be the case in a 'perfect world'.

Taking the townhouse sub-set of the rental market in isolation, any GIM analysis becomes problematic relative to a July 1, 2009 valuation date. Both parties advised the Board that there simply were no sales of 'investment grade' (over 40 unit) townhouses in 2008 or in the first half of 2009. Oral testimony was given that there were two sales in 2008 and two in 2009 – all were less than eight units in size. This explained why neither party put forward any sales evidence for a townhouse GIM study, as there was nothing comparable.

Throughout the course of over 55 appeals of rental properties recently heard by this panel, the only evidence submitted for a GIM study from either party was for high-rise buildings. The Board therefore is aware that rental properties in the City are assessed for the current year with the following GIM: Beltline and Downtown high-rises 13.00, Suburban high-rise (and mixed use) 11.50, low-rise (and mixed use with townhouse) 11.00.

The Board is aware from testimony of the parties and evidence at various hearings that townhouses are assessed with the following GIM: 12.00, 13.00, 14.00 or 15.00 (note: GIMs for all 40+ unit townhouses are subsequently factored at 90%). In view of the dearth of sales, it would be difficult enough to support any one of these GIMs with any degree of certainty, let alone a hierarchy of four. Lacking sufficient sales, this multiplier is an 'educated guess' at best.

The factors which determine a rental property assessment are:

- A. Rent (net of any documented incentives)
- B. Vacancy
- C. GIM

A and B together determine the EGI. This evidence is easily documented and is typically presented to the Board – evidence of fact. The GIM however, is accepted with less certainty. Being a multiplier, the GIM presents opportunity for error in the final valuation. The Complainant argued for an equitable application of GIM for all rental townhouses. In the absence of market sales, an equitable value that could be accepted by both parties would seem a reasonable goal. The Board therefore considered a single GIM for the townhouse group to be appropriate in the absence of sufficient similar sales.

The subject property is assessed with a GIM of 14. Considering that (over 40 unit) townhouse GIMs are factored at 90%, a 14.00 GIM nets at 12.60. Except for pure townhouse complexes, other suburban rental properties are assessed using a GIM in the 11.00 to 11.50 range. The CARB therefore supports, on an equitable basis, a single townhouse GIM of 13 which, after application of the .90 adjustment factor nets to 11.70. This provides a tight range in GIM for all types of suburban rental property (11.00, 11.50 and 11.70 net) and affirms the Complainant's contention that since the GIM is a manifestation of an owner's ROI (Return On Equity), it should be reasonably uniform given the property's EGI performance.

4. Conclusion

The CARB accepted the Complainant's EGI, based on demonstrated current rental performance relative to the July 1, 2009 valuation date. The face rates were reduced by \$100 per month for rental incentives that were shown to be quite commonplace in the market in the first half of 2009. The vacancy rate was not contested by the Complainant, and was accepted as assessed. An equitable single GIM of 13.00 (11.70 net after the 90% adjustment factor) is to be applied.

Board's Decision:

The assessment is reduced to: **\$37,550,000.**

DATED AT THE CITY OF CALGARY THIS 21 DAY OF December 2010.



C. J. GRIFFIN
Presiding Officer

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.*