



ASSESSMENT REVIEW BOARD

MAIN FLOOR CITY HALL
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NOTICE OF DECISION 0098 249/10

Altus Group Ltd.
17327 106A Avenue
Edmonton, AB T5S 1M7

The City of Edmonton
Assessment and Taxation Branch
600 Chancery Hall
3 Sir Winston Churchill Square
Edmonton AB T5J 2C3

This is a decision of the Composite Assessment Review Board (CARB) from hearings held on August 23 – 24, 2010 respecting 2010 complaints as follows:

Roll Number	Municipal Address	Legal Description	Assessment Type	Assessed Value (\$)
2813343	11230 St. Albert Trail	Plan RN60 Block 14 Lot 10 etc.	Annual New	19,859,500
9994104	10 Royal Rd. NW	Plan 6344NY Block D	Annual New	6,305,000
9994103	155 Royal Rd. NW	Plan 9023648 Block 1 Lot 1	Annual New	6,310,500
9994106	216 Crown Rd. NW	Plan 9023648 Block 2 Lot 1	Annual New	9,833,000
9993466	5210 122 St. NW	Plan 2923RS Block 30 Lot 50B	Annual New	9,286,500
9941902	2 Michener Park NW	Plan 9624107 Lot 2	Annual New	23,676,000
2742906	10350 122 St. NW	Plan 2806RS Block 3 Lot F	Annual Revised	12,419,000
3242161	9833 110 St. NW	Plan NB Block 9 Lot 20 et al.	Annual Revised	22,527,000
1034321	11012 Jasper Ave. NW	Plan NB Block 10 Lot 89 et al.	Annual Revised	32,517,500
9993390	502 9927 114 St. NW	Plan NB Block 13 Lot 38 et al.	Annual Revised	12,440,500
9993459	1104 10140 113 St. NW	Plan B3 Block 13 Lot 172 et al.	Annual Revised	20,750,500
3402351	10020 115 St. NW	Plan B3 Block 15 Lot 62 et al.	Annual Revised	8,821,500
9947944	10159 118 St. NW	Plan 7261AB Block 17 Lot 31 et al.	Annual Revised	9,863,000
7046469	2914 109 St. NW	Plan 7921043 Block 32 Lot 2	Annual New	68,988,000
9994233	2918 109 St. NW	Plan 9521383 Block 32 Lot 2A	Annual New	15,923,000
3747482	9925 Jasper Ave. NW	Plan 4132RS Block F et al.	Annual New	29,016,500
9033986	6425 101 Ave. NW	Plan 5269MC Block 3A Lot 8 et al.	Annual New	19,571,500
10005226	17319 69 Avenue NW	Plan 8323220 Unit 1188	Annual Revised	28,233,000
3314200	11212 102 Avenue NW	Plan B4 Block 12 Lot 155, etc.	Annual Revised	5,466,500
9993462	C208, 2421 104 St. NW	Plan 8020073 Block 23 Lot 93	Annual Revised	35,087,500
7820228	10615 47 Avenue NW	Plan 2978RS Block E Lot 1	Annual Revised	37,530,000

7658883	11020 53 Avenue NW	Plan 4722NY Block 35 Lot 16	Annual Revised	24,342,500
7214950	8510 111 Street NW	Plan I23A Block 163 Lot A	Annual New	42,682,000
9993445	1101 10711 Saskatchewan Drive NW	Plan 4912RS Block 189 Lot 1A	Annual Revised	17,760,500
8163206	8920 100 Street NW	Plan 4231RS Block 123 Lot 1A	Annual Revised	29,347,500
10005224	17327 69 Avenue NW	Plan 8323220 Unit 1186	Annual New	28,425,500
10005225	17323 69 Avenue NW	Plan 8323220 Unit 1187	Annual New	28,305,000
9994248	9909 Bellamy Hill NW	Plan NB Block 1 Lot 58, etc.	Annual New	4,806,000
3130507	9830 105 Street NW	Plan NB Block 5 Lot 90, etc	Annual New	5,163,000
3369055	10040 114 Street NW	Plan B3 Block 14 Lot 59, etc.	Annual New	5,947,500
4298444	11635 102 Avenue NW	Plan 592CL Block 16 Lot A, etc.	Annual New	10,096,500
7122906	8708 106 St. NW	Plan 3336ET Lot 4 et al.	Annual New	16,422,500
7128655	10405 Sask. Dr. NW	Plan 5859HW Block 102 Lot 1 et al.	Annual New	7,932,000
9993469	8715 104 St. NW	Plan I Block 104 Lot 24 et al.	Annual New	14,150,000
9993321	9947 Sask. Dr. NW	Plan I24A Block 124 Lot 24 et al.	Annual New	13,567,000

Before:

Patricia Mowbrey, Presiding Officer
James Wall, Board Member
Jasbeer Singh, Board Member

Board Officer:

J. Halicki

Persons Appearing: Complainant

From Altus Group Ltd., as agents:

Josh Weber, Director
John Maslen, Director

Others present:

Robert Brazzell, Sr. Director
Chris Buchanan, Sr. Consultant
Stephen Cook, Director

Others in attendance:

Vince Paniak, Manager ARB

Persons Appearing: Respondent

For the City of Edmonton:

Tim Dmytruk, Assessor
Tanya Smith, Solicitor

Others present:

Bozena Andersen, Sr. Assessor
Abdi Abubakar, Assessor

PROCEDURAL MATTERS

The parties indicated no objection to the composition of the Board and the Board Members expressed no bias with respect to this file.

At the commencement of the hearing, roll number 2813343 was selected as the pilot file and the arguments and evidence related thereto were carried forward to the other roll numbers/accounts before the Board as listed on pages 1, 2, and 8 of this decision.

During the hearing, the Respondent's legal counsel raised an objection as to whether or not Mr. Maslen should be answering a question by the Respondent's assessor as Mr. Maslen had not yet provided evidence. The Presiding Officer ruled that comments/questions were to be restricted to what was in evidence before the Board, a point that was raised several times throughout the hearing as required. Subsequently, Mr. Dmytruk proceeded to ask his questions of Mr. Weber only.

PRELIMINARY MATTERS

None.

BACKGROUND

Built in 1972 and consisting of 133 suites in total, the subject property is a 14 storey, high-rise apartment building with underground heated parkade, swimming pool, games room, and balconies. It is located in the Inglewood neighbourhood of Edmonton.

THEORETICAL CONSIDERATIONS

The Complainant and Respondent provided background information on theory of appraisal, assessment, and mass appraisal. Relevant extracts are cited below from the following texts received in evidence: *The Appraisal of Real Estate* (American Appraisal Institute) (C2, pgs. 2-3); *Basics of Real Estate Appraising* (Third Edition) (The Appraisal Institute of Canada) (R1, pgs. 41-43); and *The Alberta Assessors' Association Multi-Residential Valuation Guide - September 1998* (C2, pgs. 83-124).

Assessment Method used by the Municipality

The Matters Relating to Assessment and Taxation Regulation 298/99 states that the market value standard for land and its improvements is market value. The regulation also states that property assessments based on market value must be prepared using mass appraisal techniques and be an estimate of the fee simple estate in the property and must reflect typical market conditions for properties similar to that property.

Mass appraisal consists of stratifying properties into similar groups and developing models from typical market information to arrive at a market value estimate. These models can then be applied to each property and should be adjusted to reflect specific characteristics that differ from the model. (C1, pg. 9)

From *The Appraisal of Real Estate*:

Gross Income Multipliers (GIM)

To derive a gross income multiplier from market data, sales of properties that were rented at the time of sale or were anticipated to be rented within a short time must

be available. The ratio of the sale price to the annual gross income *at the time of sale* or projected over the first year or several years of ownership is the gross income multiplier.

After the gross income multiplier is derived from comparable market data, it must be applied on the same basis it was derived. In other words, an income multiplier based on effective gross income can only be applied to the effective gross income of the subject property; an income multiplier based on potential gross income can only be applied to the potential gross income of the subject property. The timing of income also must be comparable. (C2, pg. 2)

From the *Alberta Assessors' Association Valuation Guide - September 1998*:

This valuation guide presents a practical valuation tool utilizing the *income approach* to value multi-residential buildings.

The methods presented in this valuation guide are aimed at deriving values for a number of different classes of multi-residential facilities. (C2, pgs. 86-87)

Income Approach

Multi-residential buildings generate rental income. Rental information is generally available for all types of apartment properties, however, and especially for smaller properties, Income and Expense Statements and other financial information may be more difficult to obtain.

With the appropriate financial information, it is possible to establish the valuation parameters and capitalization rates needed to complete a *direct capitalization* valuation method on certain types of larger multi-residential properties. The rental information that is typically available for other less complex and smaller types of apartment buildings indicates that a gross income multiplier should generally be used. (C2, pg. 88)

As a general rule, the higher the similarity and the more robust the sales data, the more accurate the result of a gross income valuation procedure. A logical extension of this statement is that a GIM procedure works best with less complex properties that are easier to compare, than properties with a range and variety of different components and attributes. (C2, pg. 92)

Collect Appropriate Information

More than any other factor the type and quality of information available dictates the method that can be used to value properties. The efforts put in at the information collection stage will determine the quality of the final analysis.

Helpful sources of information that can be used in the valuation of multi-residential buildings include: assessment records, owners, real estate consultants and brokers, real estate publications, title registration offices, and government sources such as Canada Mortgage and Housing Corporation (CMHC). (C2, pg. 95)

Property Information

To compare, classify, and develop useful GIMs or other valuation parameters for multi-residential properties, it is necessary to obtain pertinent physical and descriptive information. (C2, pg. 95)

Estimate Typical Gross Income

Along with the actual gross income, it will be necessary for the assessor to determine typical gross income...for that class of residential property. Typical rents are established through the analysis of all the information collected on the properties contained within a class. (C2, pg. 108)

Estimate Effective Gross Income

Applying the long-term vacancy and collection loss allowance to the potential gross income produces a normalized effective gross income for the subject property. The long-term vacancy rate should be established by analysis of actual reported vacancy rates or rates as tabulated by various government bodies such as CMHC. Long-term refers to a period of approximately seven years. (C2, pg. 109)

Multiply the Effective Gross Income by the Gross Income Multiplier to Produce a Value Estimate

Once the effective gross income has been established, the market value of the property can be determined by applying the gross income multiplier (GIM). The GIM is determined through analysis of sales of properties displaying similar income, expense and risk characteristics.

$$\text{GIM} = \text{SALES PRICE} / \text{GROSS INCOME}$$

Note: A GIM developed in the analysis of one class of multi-residential property may not be applicable to other classes of multi-residential property. (C2, pg. 109)

Market Value of Property

Market value is determined by analyzing the physical and income characteristics of multi-residential properties and compiling this information into homogeneous groups or classes. The value of one property in a class is based upon its actual performance but is bounded by the typical values generated by all the other properties in that class. Then, if required, any additional value is added to this total to produce an overall market value for the property. (C2, pg. 117)

From *Basics of Real Estate Appraising* (Third Edition) :

Motivation

The motivations of both buyers and sellers must be investigated to see if there was any undue pressure or reason for the sale of the property. Was the vendor motivated to sell quickly because the cash was needed, or because of a divorce, or a non-arm's-length transaction, or any other unusual circumstance. If special conditions are found, discard the sale; however, if it must be used, talk to the parties involved or the salesperson to find out more about the circumstances, so that the sale can be adjusted properly. Any adjustments made for motivation must be well supported. (R1, pg. 43)

Market conditions

Since the date of the appraisal is a specific date, one must consider if the market has changed over time...Market conditions can change due to inflation, deflation and fluctuations and/or changes in the supply and demand of properties in that particular market...Market conditions, not time itself, create the need for an adjustment. (R1, pg. 43)

REMAINING ISSUES

1. Is the subject property assessed in contravention of section 293 of the *Municipal Government Act* and of *Matters Relating to Assessment and Taxation Regulation* 220/2004?
3. Should the assessed value be reduced to the lower of market value or equitable value?
4. Is the assessment of the subject property in excess of its market value for assessment purposes?
5. Is the assessment of the subject property fair and equitable considering the assessed value and assessment classification of comparable properties?
10. Should the gross income multiplier (GIM) be decreased to reflect market conditions at the valuation date?
13. Has the correct valuation methodology been applied by the municipality (Respondent) when determining the assessed value?

[The enumeration above reflects order of appearance as per the complaint form(s). During the hearing, the Complainant abandoned all other issues enumerated thereon.]

LEGISLATION

Municipal Government Act, R.S.A. 2000, c. M-26;

- s. 289(2) Each assessment must reflect
- (a) the characteristics and physical condition of the property on December 31 of the year prior to the year in which a tax is imposed under Part 10 in respect of the property, and
 - (b) the valuation and other standards set out in the regulations for that property.
- s. 293(1) In preparing an assessment, the assessor must, in a fair and equitable manner,
- (a) apply the valuation and other standards set out in the regulations, and
 - (b) follow the procedures set out in the regulations.
- (2) If there are no procedures set out in the regulations for preparing assessments, the assessor must take into consideration assessments of similar property in the same municipality in which the property that is being assessed is located.
- (3) An assessor appointed by a municipality must, in accordance with the regulations, provide the Minister with information that the Minister requires about property in that municipality.
- 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.

Matters Relating to Assessment and Taxation Regulation 220/2004

s. 2 An assessment of property based on market value

- (a) must be prepared using mass appraisal,
- (b) must be an estimate of the value of the fee simple estate in the property, and
- (c) must reflect typical market conditions for properties similar to that property.

s. 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 unless subsection (2) or (3) applies.

POSITION OF THE COMPLAINANT

The position of the Complainant is that the GIM is the correct method of estimating the market value of the subject property for assessment purposes. The Complainant further argued that a single GIM should be used in the assessment of similar type properties.

The Complainant presented three sales comparables of walk-ups to derive a GIM of 8.89153 (C2, pg. 7), which when applied to the subject property suggests a reduced assessed value.

The Complainant also presented an equity analysis of 80 high-rise properties (C2, pg. 31) exhibiting a range of GIM's from 8.88592 to 13.04467. Based on equity, the Complainant requested a reduction of the subject's GIM to 8.88592. (C2, pg. 152).

In support of the argument, the Complainant produced a graph of GIM's supplied by *The Network* data indicating a downward trend of GIM's from August 2007 to October 2009 (C2, pg. 9). The Complainant argued that the GIM used by the Respondent is too high and the value produced from it does not support market value as at July 1, 2009.

POSITION OF THE RESPONDENT

The Respondent argued that the subject's GIM is correct as it was derived in the Mass Appraisal process through the Multiple Regression Analysis Model and that this methodology is consistent with Provincial Quality Standards, tested by audit, as set out in *Matters Relating to Assessment and Taxation Regulation 220/2004*.

In support of the assessment of the subject property, the Respondent provided five, time-adjusted sales comparables of high-rise apartment buildings (R1, pg. 26) which occurred between February and September 2007. The Respondent argued that these high-rise sales comparables support the assessed value of the subject property after further requisite adjustments are applied.

Additionally, the Respondent provided 76 high-rise equity comparables (R1, pg. 49) located in various areas of Edmonton. Many of these comparables exhibited similar age, condition, and other characteristics as the subject property.

DECISION

The decision of the Board is to confirm the 2010 assessment for the subject property and for the properties associated with the following roll numbers:

2813343	9941902	9993459	3747482	9993462	10005224	4298444
9994104	2742906	3402351	9033986	7820228	10005225	7122906
9994103	3242161	9947944	10005226	7658883	9994248	7128655
9994106	1034321	7046469	3314200	7214950	3130507	9993469
9993466	9993390	9994233	8163206	9993445	3369055	9993321

REASONS FOR THE DECISION

1. In rendering its decision, the Board thoroughly reviewed the theory and text references in both the Respondent's and the Complainant's evidence in exhibits R1, C1, and C2.
2. The Respondent, the City of Edmonton, uses the Multiple Regression Analysis (MRA) model for mass appraisal purposes within its municipal boundaries. In doing this, it is following the *The Alberta Assessors' Association Multi-Residential Valuation Guide* (C2, pg. 83).
3. The Board is in agreement with both the Complainant and the Respondent in their selection of the Income Approach as the most appropriate method of valuation and specifically the selection of the Gross Income Multiplier (GIM) as the measure of comparability. The GIM is developed through the analysis of sales of similar properties and relates market value to gross income produced by such properties. Typical rents and typical vacancies are established through the analysis of information collected from a class of properties and are applied to reach an effective gross income in the formula as follows: Typical Gross Income less long-term Vacancy Rate equals Effective Gross Income. The Respondent established an effective gross income using typical rent and typical vacancy factors which the Complainant agreed with and accepted.
4. The Complainant submitted in evidence three sales comparables (C-2, pg. 7) suggesting that the sales dates were close to the valuation date and should be acceptable without any adjustments. Sales #1 and #2, respectively dated September and August 2009, occurred after the valuation date of July 1, 2009. The Respondent stated that in accordance with the legislation, such information was neither available at the time of valuation nor was it used by the Respondent.
5. The Board noted that these sales comparables provided by the Complainant pertained to walk-up apartment properties in various market areas and did not have any special high rise amenities e.g. underground heated parkade, swimming pool and games room. The Board viewed this as a lack of comparability to the subject property.
6. It was pointed out to the Board, by the Respondent, that the comparable sale #3 (C2, pg. 17) was a sale to a civic agency for public housing and not as an investment. The Board considers the purchaser a non-typical buyer in this market. The Board agrees with the Respondent that sale #2 (C2, pg. 16) has an inferior location and is situated on a major traffic artery (109 Street). The Board was informed that sale #1 (C2, pg. 15) was a newer property (built in 2002) and was reported to be a motivated sale. In this regard, the Respondent included both the *Network* and *Anderson Data Online* data sheets (R1, pgs. 45-46). Both data sheets reflect the same specifics for the sale. The *Anderson* report and the web search of the vendor's company (R1, pg. 44) indicated that it carried the benefit of attractive financing, in addition to reporting it as a motivated sale. The Board questions whether sufficient due diligence was applied by the Complainant in selecting and relying on sale #1 (C2, pg. 15) as the median GIM and as the basis for the requested reduction in assessment.

7. The Board considered the Complainant's Direct Sales Approach request analysis spreadsheet (C1, pg. 29) and found it confusing. The Board looked to see where in appraisal theory or text, in the evidence presented was the support for this procedure of using Net Operating Income (NOI) ratios to determine value? The Board noted that the Complainant's evidence to support the validity of this theory comprised of six pages from an incomplete appraisal by an unidentified author which does not explain the validity nor the weight that was given to it in the appraisal itself (C2, pg. 145-150). It was also noted by the Board that one page from another incomplete appraisal report stated that this theory was "...a check against the Income Approach value estimate conclusion..." (C2, pg. 151). However, the Board did not consider these appraisal reports as they were incomplete.

The Board failed to find evidence of the theory and text provided or any reference to the NOI ratio methodology on which to base a value estimate. This ratio is given little weight by the Board in establishing assessed value of the subject property. The Board concluded that the Complainant's use of the three comparable sales (C2, pg 7) to generate a GIM and to develop a ratio, represents a mixing of the Income and the Direct Sales Comparison approaches.

8. The Board notes that the Complainant indicated no adjustment had been made for the type of properties between the subject high-rise and the walk-up sales comparables selected by the Complainant (C2, pg. 7). Both parties reported there were no high-rise apartment sales in Edmonton since 2007. The Board was not persuaded by the Complainant's argument that all property variables (i.e. market area, building type and effective age) are included in the Potential Gross Income (PGI) of the property.
9. The Board notes the Respondent's higher GIM may be attributable to the City's MRA model which applies additional adjustments to the GIM to reflect other characteristics (i.e. location, building type, and effective age) that have not been specifically considered by the Complainant.
10. The Board noted all the theory and text quotes provided in the evidence by both parties suggest that numerous and similar sales are required to collect data for the Income Approach and GIM. The Board accepts the choice of a median GIM, in principle, but notes that it is taken from a relatively small sample of the Complainant's three sales. Can a sample of three sales comparables be relied upon? The Board further notes the median GIM of 8.89153, selected by the Complainant, is the basis for the requested reduction in assessment. The Board finds the validity of the median (sale #1, C2, pg. 15) is questionable and, therefore, cannot be relied upon as the basis for a reduction in assessment.
11. The Complainant provided the Board with 80 equity comparables from across Edmonton with assessed GIMs ranging from 8.88592 to 13.04467 (C2, pg. 31). Based on these equity comparables, the Complainant requested the Board to reduce the subject GIM to the lowest in the range i.e. 8.88592 (C2, pg. 152) .

The Complainant outlined six of these equity comparables as being in the low GIM category with a median GIM of 9.62054 and six of these equity comparables were in the high GIM category with a median GIM of 11.65143 (C2, pg. 32). It is the Board's opinion that these ranges support the assessment GIM for the subject property.

12. The Board notes the Complainant's requested equity GIM 8.88592, is from a property with the lowest GIM of the 80 equity comparables put forward. The Respondent described this particular property as a rooming house located in an inferior area of Edmonton. The Board placed little weight on the equity GIM.
13. The Respondent provided five, time-adjusted high-rise sales comparables (R1, pg. 26), which sold between February and September 2007. The Respondent indicated that although the sales are

dated, they represent the most recent sales of Edmonton high-rise properties; the Complainant agreed. The high-rise comparables indicated a time-adjusted GIM which ranged from 11.9 to 17.88. The Board noted that time adjustments were substantial and the Complainant and the Respondent agreed that 2007 represented a volatile market year for high-rise properties in Edmonton.

The substantial time adjustments were not questioned, however, the Complainant did question the reliability of sales which occurred approximately two years prior to the effective date of the assessment. The Board is persuaded that dated time-adjusted sales of high-rise apartments offer a more reliable indication of value than three current sales of walk-up apartments. The Board placed greater weight on the high rise sales comparables.

The Respondent included five, time-adjusted walk-up sales which had occurred between February 2008 and May 2009 (R1, pg. 27) which indicated a time-adjusted GIM range of 9.84 to 12.10. The Respondent further adjusted these sales comparables to indicate an adjusted GIM of 9.81 to 11.04. The Board places little weight on these comparable sales.

14. The Board considered the 76 high-rise equity comparables presented by the Respondent (R1, pg. 49). These comparables included several of the same properties presented by the Complainant in exhibit C2, page 31. The Board notes that the range of GIM's is 9.31093 to 12.73692. The subject property's GIM lies within this range. This provides support for the subject's assessed GIM when adjustments are taken into consideration to reflect the similarities and differences between the equity comparables and the subject.
15. The Board considered the Respondent's sales comparables (R1, pg. 26) but placed greater weight on the equity comparables (R1, pg. 49), as these are all high-rise properties and exhibit similar age, condition and other characteristics.

The Board finds the assessment of the subject property is fair and equitable.

DISSENTING DECISION(S)

None.

Dated this thirteenth day of September, 2010 A.D., at the City of Edmonton, in the Province of Alberta.

Presiding Officer

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, R.S.A. 2000, c.M-26.

CC: Municipal Government Board
City of Edmonton, Assessment and Taxation Branch
City of Edmonton, Law Branch
Boardwalk REIT Properties Holdings (Alberta) Ltd.
Governors of the University of Alberta
BPCL Holdings Inc.
Boardwalk REIT Properties Holdings Ltd.
Jerimar Properties Inc.
3414493 Canada Inc.
Capital Management Ltd.
Bond Investments Ltd.
Wayne Construction Ltd.
681348 Alberta Ltd.
920474 Alberta Ltd.
2079470 Ontario Inc.
Globe General Agencies Ltd.