



ASSESSMENT REVIEW BOARD

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NOTICE OF DECISION NO. 0098 339/10

Canadian Valuation Group
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Edmonton, AB T5J 3S9

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 a hearing held on October 6, 2010 respecting a complaint for:

Roll Number 9942678	Municipal Address 10020 103 Avenue NW	Legal Description Plan: 9624099 Lot: 91A
Assessed Value \$36,856,000	Assessment Type Annual - Revised	Assessment Notice for 2010

Before:

Ted Sadlowski, Presiding Officer
Tom Eapen, Board Member
John Braim, Board Member

Board Officer: Annet N. Adetunji

Persons Appearing: Complainant

Tom Janzen, CVG

Persons Appearing: Respondent

Tim Dmytruk, Assessor, City of Edmonton
Tanya Smith, Barrister & Solicitor, City of Edmonton

PRELIMINARY MATTERS

1. No objections were raised by either party with respect to the Board. Neither did the Board indicate any bias with respect to the file or the parties.
2. The Presiding Officer reminded the parties that they are still under oath.
3. At the commencement of the hearing, roll number 1079268 which had been selected as the pilot file, from which the relevant evidence and arguments would be carried forward, was referred to.

BACKGROUND

The subject property is a 22 storey high-rise building that was constructed in 1966 and consists of 348 apartment suites (71 bachelor, 190 one bedroom, 78 two bedroom, 1 three bedroom, and 8 penthouse suites). The main floor has commercial space with an assessed value of \$2,325,500. This commercial portion of the assessment is not included with this appeal. The subject is located in the downtown core and is known as City Square Tower.

ISSUES

1. Is the subject property assessed in accordance with section 293 of the *Municipal Government Act* and the *Matters Relating to Assessment and Taxation Regulation*?
2. Is the assessment of the subject property in excess of its market value for assessment purposes?
3. Is the Capitalization Rate method the best method of estimating the market value of the subject property?
4. Is the Gross Income Multiplier (GIM) method the best method of estimating the market value of the subject property?

There was no issue with the assessment of the commercial space that forms part of the total assessment. The total assessment is \$36,856,000 with the commercial space being assessed at \$2,325,500, leaving \$34,530,500 for the residential component.

Both the Complainant and the Respondent agreed the Income Approach to Value was the best method of estimating the value of the subject property. Furthermore, both the Complainant and the Respondent agreed that typical income and typical vacancy rates are what should be utilized in the valuation process for assessment purposes.

LEGISLATION

The *Municipal Government Act*, R.S.A. 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

The position of the Complainant is that the Capitalization Rate method is the best method of estimating the market value of the subject property for assessment purposes as rental producing apartment properties are most commonly bought and sold on the overall capitalization approach

in which a rate of return (capitalization rate) is applied to net income after the operating expenses have been deducted (C-1, pgs 1-5).

The Complainant did not disagree with the Respondent's estimates of potential typical income and vacancy which had been applied to the subject building. The Complainant provided a list of typical expenses, on a price per suite basis, that were taken from 12 high-rise apartment buildings that indicated a range in expenses from \$4,744/suite to \$7,300/suite with an average of \$5,700/suite and a median of \$5,272/suite. In the case of the last sale on the list he noted the figures included some non-annual replacement costs. Also in the case of the two sales preceding the last sale, they had significant commercial components that would cause the expense ratio to be higher than typical. Excluding the figures from these three sales, the Complainant indicated the typical average expense estimate would be reduced to \$5,328/suite and the typical median expense estimate reduced to \$5,087/suite. From this further analysis, he concluded a reasonable typical operating expense that should be applied to the subject property is \$5,000/suite. The Complainant then deducted the total expenses from the Effective Gross Income to arrive at the Net Operating Income.

The Complainant provided the Board with 8 sales of high-rise apartment buildings that had sold in 2007 and indicated a median Capitalization Rate of 4.75% which he time adjusted to 6.75%. The Complainant applied the capitalization rate to the NOI for the Rent Roll of the subject (\$1,392,933 - C-1, page 4) to produce a value of \$20,636,044. The Complainant stated the building had a chronic history of achieving rents lower than "typical" and the actual rents were in fact "typical" for this building. The same chart (C-1, pg 3) also indicated a GIM of 12.03 which was then time adjusted to 9.0. The Complainant applied the GIM to the Effective Gross Income (\$3,132,933) that he derived from the 2008 Income statement and the March 2009 rent roll. This produced a figure of \$28,196,397. An overall assessment of \$30,525,000 was requested when the commercial component is added and which included an assessment of \$28,200,000 for the multi-residential component.

The Complainant argued the potential gross income of the subject property for 2008 was overstated because the parkade was open to the public as it was leased out to a third party (Impark) and the net return from the parkade was only \$149,918 not \$312,124 as shown on the 2008 Income Statement.

POSITION OF THE RESPONDENT

The position of the Respondent is that the GIM is the best method of estimating the value of the subject property. Furthermore, the subject GIM is correct and was derived through the Multiple Regression Analysis Model which is consistent with Provincial Quality standards and tested by audit, as set out in *MRAT*.

The Respondent provided 5 sales of high-rise apartment buildings that indicated GIMs ranging from 10.93 to 17.88 (R-1, Tab 3) in support of the GIM of 9.48784 (R-2, pg 11) that had been applied to the subject property for the subject's assessment by the MRA Model (noted above). From this analysis the Respondent produced a price per suite for each of the 5 sales and then time adjusted it to produce a range of values from \$116,932/suite to \$146,483/suite. This range supports the assessment of the subject.

DECISION

The decision of the Board is to confirm the 2010 assessment at \$36,856,000.

REASONS FOR THE DECISION

1. The Board was persuaded that the Income Approach is the appropriate approach for high-rise residential properties.
2. The Complainant favoured the use of the Capitalization Rate approach to valuation rather than the Gross Income Multiplier (GIM) approach that was used by the Respondent. The Board was persuaded that the GIM approach should be used as that methodology is also an acceptable approach to valuation.
3. The Board was not persuaded by the Complainant's Capitalization Rate Approach that included the operating expense estimates that were provided using data from 8 high-rise apartments. The Board noted no supporting evidence was provided for the expenses from any of the twelve apartments except for the subject property. The Board notes a rate of \$5,000 per suite was chosen for the subject property, although the actual was reported to be close at \$5,087 per suite. The Board considers each apartment building to be individually distinctive and operating expenses are a reflection of different management styles, building size, age, condition, and suite combinations. To create a "typical" operating expense/suite that would be applied to all high-rise buildings would not reflect the individual characteristics of each building.
4. The Board considered the equity comparables by the Respondent (R-1, tab 12) and of particular significance were roll numbers: 10024801, 9994240, 1066265, and 9994248. These four comparables are similar to the subject in that all are in the downtown district, all are high-rises, all have suites that are reasonably similar in size ranging from 62 square metres to 67 square metres (subject – 66 square metres). They are similar in age, ranging from an effective year built from 1962 to 1973 (subject – 1966). One comparable was built in 1981 requiring a downward adjustment. One comparable had no on-site parking, one had only surface parking and three had enclosed heated parking. In addition, all are in average condition as is the subject. These 4 equity comparables support the assessment in terms of the price per suite.
5. The multi-residential assessments for the equity comparable sales ranged from \$89,623 per suite to \$107,544 per suite. The subject has an assessment \$99,226 per suite which is within the range of the equity comparables.
6. Two of the comparables had a commercial component. The subject has a commercial component but that component was not under appeal.
7. The Complainant provided eight sales of high-rise apartments from 2007 as there were no further sales prior to July 1, 2009 (C1, pg 3). The average GIM for those sales was 12.77 but there was one sale with a GIM of 17.88 that was considered to be an outlier. When that property is removed, the average GIM is 12.04 which would support the assessment of the subject that had a GIM of 9.48784 as applied by the Respondent. The Board, however, placed little weight on these sales comparables as they varied in location from the subject and had a suite mix that ranged from 37 to 1,076 suites. In addition, 2 of the

comparables contained low rise and/or town house units unlike the subject which is a high rise.

8. The Board finds the 2010 assessment of the subject to be fair and equitable.

DISSENTING OPINION AND REASONS

There were no dissenting opinions.

Dated this 2nd day of November, 2010, at the City of Edmonton, in the Province of Alberta.

Presiding Officer
Ted Sadlowski

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
Clair Borrow
Shirley Goldfarb
Harvey Rosenbloom
Melvin Dobrin
Marvin Rosenbloom
Helen Lang