



## ASSESSMENT REVIEW BOARD

MAIN FLOOR CITY HALL  
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### NOTICE OF DECISION NO. 0098 342/10

Canadian Valuation Group  
1200 10665 Jasper Avenue  
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 4, 2010 respecting a complaint for:

<b>Roll Number</b> 1079268	<b>Municipal Address</b> 10125 121 Street NW	<b>Legal Description</b> Plan: 4423AJ Block: 20 Lot: 355 et al
<b>Assessed Value</b> \$40,204,000	<b>Assessment Type</b> Annual - Revised	<b>Assessment Notice for</b> 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  
Aleisha Bartier, Barrister & Solicitor, City of Edmonton

## **PRELIMINARY MATTERS**

1. Upon questioning by the Presiding Officer, the parties present indicated no objection to the composition of the Board. In addition, the Board members indicated no bias with respect to this file.
2. Prior to the commencement of the hearing, the parties were sworn in.
3. At the commencement of the hearing, roll number was 1079268 was selected as the pilot file from which the relevant evidence and arguments would be carried forward to ensuing roll numbers before the Board, where applicable.

## **BACKGROUND**

The subject property is a 26 storey high rise building that was constructed in 1972 and is in average condition for its age. It consists of 249 apartment suites (149 one bedroom and 100 two bedroom suites). The main floor has commercial space with an assessed value of \$4,271,000. The commercial portion of this assessment is not included with this appeal as there was no issue with the assessment of the commercial space. The subject is located in the Oliver District to the west of the downtown area.

## **ISSUES**

1. Is the subject property assessed in accordance with section 293 of the *Municipal Government Act* and *Matters Relating to Assessment and Taxation Regulation* (MRAT), AR 220/2004?
2. Is the assessment of the subject property in excess of its market value?
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?

The total assessment is \$40,204,000 with the commercial space being assessed at \$4,271,000, leaving \$35,933,000 for the residential component. Both the Complainant and the Respondent agreed that the Income Approach to Value is 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. 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.*

*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 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 the net income after the operating expenses have been deducted (C-1, pgs 1-3).

The Complainant agreed 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 per suite basis, that were taken from 12 high rise apartment buildings. The range for the expenses was from \$4,744 to \$7,300 per suite with an average of \$5,700 per suite and a median of \$5,272 per suite (C-1, pg 2). 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 result in a higher expense ratio than typical. Excluding the figures from these three sales, the Complainant indicated the typical average expense estimate would be reduced to \$5,328 per suite and the typical median expense estimate would be reduced to \$5,087 per suite. From this further analysis he concluded a reasonable typical operating expense that should be applied to the subject property would be \$5,000 per suite. The Complainant 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 were sold in 2007 and indicated a median Capitalization Rate of 4.75% which he time adjusted to 6.75% (C-1, pg 3). This was applied to the Net Operating Income of \$1,992,099 to produce a value estimate of \$29,512,578. The same chart (C-1, pg 3) also indicated a median GIM of 12.03 which was then time adjusted to 9.0. The Complainant applied this time adjusted GIM to the Effective Gross Income of the subject property to produce a value estimate of \$29,133,891. He indicated the two figures gave good support to each other and concluded that a final value estimate of \$29,500,000 was indicated for the residential component.

## **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 by 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 (R-1, tab 3) that indicated GIMs ranging from 10.93 to 17.88 in support of the GIM of 11.10041 (R-2, page 10) that had been applied to the subject property to arrive at the subject's assessment. From this analysis, the Respondent produced a price per suite for each of the 5 sales and then time adjusted them to arrive at a range in values from \$116,932 to \$146,483 per suite. The subject property, being assessed at \$144,309 per suite, falls within this range and supports the assessment.

## **DECISION**

The decision of the Board is to confirm the 2010 assessment at \$40,204,000.

## **REASONS FOR THE DECISION**

1. The Board was persuaded that the Income Approach is the appropriate approach for assessing high rise residential properties.
2. The Complainant favored the use of the Capitalization Rate approach to valuation rather than the GIM approach that was used by the Respondent. The Board was persuaded that the GIM approach should be used as that methodology does not require the application of estimated expenses.
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 12 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 \$6,991 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 presented by the Respondent (R-1, tab 12). Of particular significance were roll numbers: 4259693, 3334455, 3487055, and 4314191. These comparables are similar to the subject in that all are in the Oliver district, all are high rises, and all are similar in age, their effective year built ranged from 1966 to 1981. The subject has an effective year built of 1972. Two of the comparables have enclosed heated parking, like the subject. In addition, all are in good condition as is the subject.
5. The assessments for the Respondent's four most significant comparables ranged from \$139,838 to \$160,399 per suite. The subject has an assessment \$144,309 per suite which is within the range of the 4 comparables and supports the assessment.
6. None 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 and there were no further sales between then and 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 deemed to be an outlier. When that property is removed, the average GIM is 12.04 which would support the assessment of the subject which had a GIM of 11.10041 as applied by the Respondent. The Board, however, placed little weight on these sales comparables as they varied in location from the subject and the number of suites per building ranged from 37 to 1,176 suites, which is a very wide range. 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 2<sup>nd</sup> day of November, 2010, at the City of Edmonton, in the Province of Alberta.

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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.*

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cc: Municipal Government Board  
Peppertree Apartments Ltd