



ASSESSMENT REVIEW BOARD

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NOTICE OF DECISION NO. 0098 344/10

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 5, 2010 respecting a complaint for:

Roll Number 3055985	Municipal Address 8409 112 Street NW	Legal Description Plan: I23A Block: 162 Lot: 16 /17
Assessed Value \$5,717,000	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 5 storey high-rise building that was built in 1964 and consists of 35 one bedroom apartment suites. It has an effective age of a 1990 building. There is no on site parking to this property. The subject is located in the University area and is known as The Galen Lofts. It has commercial space on the main floor level but the commercial space does not form part of this appeal.

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 \$5,717,000 and the commercial space is assessed at \$805,500 and the residential at \$4,911,500.

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 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 1-3).

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 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 should be \$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%. As the subject property is effectively newer he further adjusted it to 6.25%. This was applied to the Net Operating Income of \$216,104 to produce a value estimate of \$3,457,664. The same chart (C-1, pg 3) also indicated an average GIM of 12.03 which was then adjusted for both time and age to 9.5. The Complainant then applied this time adjusted GIM to the Effective Gross Income of the subject property to produce a value estimate of \$3,715,488. He concluded the two figures gave good support to each other and arrived at a final value estimate of \$3,500,000 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 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 12.55814 (R-2 pg 24) 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.

DECISION

The decision of the Board is to confirm the 2010 assessment at \$5,717,000.

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 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 \$7,158 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). Of particular significance are roll numbers 10024801, 4314324 and 3005550 all of which are in average condition for their respective ages. The first comparable is the only comparable with no on-site parking, like the subject. It is an older building but has larger suites. The second comparable is of similar age, but located in the downtown area. However, it is substantially larger than the subject and has enclosed parking. The third comparable is also of similar age and is located in the downtown area, but is even larger than the second comparable and also has enclosed parking. These equity comparables are the only/best comparables in terms of parking (#1) and age (#2 & #3). Roll #7128655 on Saskatchewan Drive, and with an average size of 65 square metres per suite, is the best comparable for in size within the same market area. It is older than the subject property and it does have covered parking. Roll#10007145 is the best overall comparable for size at 51 square metres but is located in the downtown area.
5. Prior to making any adjustments the average multi-residential assessment for the first three comparables is \$121,880 per suite, whereas the average for the two size comparables is \$111,516 per suite.
6. Though two of the comparables have commercial components, the commercial space is not an issue.
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 which had a GIM of 11.08013 as applied by the Respondent. The Board, however, placed little weight on these sales comparables as none of these sales were in the same market area, none were in the same age category 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

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
The Galen Residences Inc
1037695 Alberta Ltd