



ASSESSMENT REVIEW BOARD

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NOTICE OF DECISION NO. 0098 346/10

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 6, 2010 respecting a complaint for:

Roll Number 10013388	Municipal Address 8310 93 Avenue NW	Legal Description Plan: 0325528 Block: 15 Lot: 31
Assessed Value \$24,341,500	Assessment Type Annual - New	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 larger two-part multi-residential development located in the Holyrood subdivision south-east of the downtown core. The newer part is known as Holyrood Boulevard. It comprises a 5 storey high-rise building that was constructed in 2002 and consists of 96 apartment suites (1 bachelor, 57 one bedroom, and 38 two bedroom suites). They are in average condition for their age. The older part is known as Holyrood Gardens and comprises 90 rowhouse units that were constructed in 1954. Holyrood Gardens are all two bedroom units and are in fair condition for their age.

ISSUES

1. Is the subject property assessed in accordance with the S.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. The Complainant argued the potential gross income of the subject property for 2008 was over stated 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.
5. The Complainant argued the potential gross income of the subject property for 2008 was over stated 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.
6. Is the Gross Income Multiplier (GIM) method the best method of estimating the market value of the subject property?

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

A. HIGH-RISE BUILDING

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 preceeding 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 occurred in 2007 and indicated a median Capitalization Rate of 4.75% which he time adjusted to 6.75%. This was applied to the Net Operating Income of \$621,541 to produce a value estimate of \$9,944,656. The same chart (C-1, pg 3) also indicated a median GIM of 12.03 which was then time adjusted to 9.50. The Complainant then applied this time adjusted GIM to the Effective Gross Income of the subject property to produce a value estimate of \$10,464,640. He concluded the two figures gave good support to each other and a final value estimate of \$10,000,000 was indicated for the high-rise portion.

B. ROW HOUSE BUILDINGS

The Complainant agreed with the Respondent's estimates of potential typical income and vacancy which had been applied to the subject building. The Complainant indicated the Respondent's potential income estimate closely matches the actual income but informed the Board that the landlord pays all the utilities in this project. The Complainant's evidence indicated this was not normal for newer modern row house complexes as the Respondent use only gross income and not net income after expenses to value properties. As such, the subject was being treated unfairly. The Complainant agreed with the Respondent's effective gross income estimate and the vacancy rate, but he indicated that the expenses should be increased to \$5,500 per suite to reflect the higher costs associated with paying utilities.

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 12.31954 (R-2 pg.9) 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 \$24,341,500.

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 \$5,617 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 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 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.
5. The Board finds that it was not provided with adequate comparables to revise the assessment and therefore, confirms the assessment at \$24,341,500.

6. The Board finds that the 2010 assessment of the subject is fair and equitable.

DISSENTING OPINION AND REASONS

There was no dissenting opinion.

Dated this 5th day of November, 2010, at the City of Edmonton, in the Province of Alberta.

Ted Sadlowski
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
424363 Alberta Ltd
410087 Alberta Ltd