



## ASSESSMENT REVIEW BOARD

MAIN FLOOR CITY HALL  
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### NOTICE OF DECISION NO. 0098 493/10

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 22, 2010, respecting a complaint for:

<b>Roll Number</b> 4314282	<b>Municipal Address</b> 350 Hooper Crescent NW	<b>Legal Description</b> Plan: 7722149 Block: 38 Lot: 3
<b>Assessed Value</b> \$15,656,000	<b>Assessment Type</b> Annual - New	<b>Assessment Notice for</b> 2010

#### Before:

Robert Mowbrey, Presiding Officer  
John Braim, Board Member  
Tom Eapen, Board Member

**Board Officer:** Annet N. Adetunji

#### Persons Appearing: Complainant

Tom Janzen, Canadian Valuation Group

#### Persons Appearing: Respondent

Bozena Anderson, Assessor, City of Edmonton  
Cameron Ashmore, Barrister & Solicitor City of  
Edmonton

## **PRELIMINARY MATTERS**

1. Upon questioning by the Presiding Officer, the parties indicated no objection to the composition of the Board.
2. In addition, the Board advised the parties that the Board was not aware of any circumstances that would raise an apprehension of bias with respect to this file.
3. The Board had those individuals providing testimony either sworn or affirmed.

## **BACKGROUND**

The subject property is a 147 suite low rise apartment building located in the Overlanders neighborhood, (Market area 11). It was built in 1982 with four stories and is in average condition. The property has elevators. The total 2010 assessed value for the property is \$15,656,000 which equates to \$106,503 per suite.

## **ISSUE**

Is the assessment of the subject property in excess of its market value?

## **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**

At the commencement of the hearing, the Complainant informed the Board they were not pursuing the argument pertaining to the equity issue or multiplier used by the Respondent put forth in the complaint reasons.

The position of the Complainant is that the capitalization rate (cap 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 (cap rate) is applied to the net income after the operating expenses have been deducted (Exhibit C-1, pages 1-3).

The Complainant did not disagree with the Respondent's estimate of potential typical income and vacancy which had been applied to the subject building. The Complainant provided an income statement as at December 31, 2008. The Complainant provided a list of expenses, on both a price per suite and an expense percentage basis, that were taken from 7 low-rise apartment buildings all located in North Edmonton (Exhibit C-1, page 2). The expenses ranged from \$2,915

to \$3,989 per suite. The Complainant used an expense figure of \$3,400 per suite for the subject property. The Complainant deducted the operating expenses from the Complainant's effective gross income to arrive at the net operating income. The Complainant stated the average cap rate was 6.85% and the median cap rate was 7.07%. The Complainant deduced that 7.00% was the appropriate cap rate for the subject property.

The Complainant applied a cap rate of 7.00% and the Complainant's expenses on a per suite basis to the City of Edmonton's potential gross income of \$1,599,571. (PGI – 4% vacancy and \$3400 expenses per suite). This produced a net operating income of \$1,035,789 and a value of \$14,796,500 or \$100,656 per suite.

The Complainant advised the Board that when using the subject's 2008 income statement of net operating income of \$944,008 and a 7% cap rate, a value of \$13,485,500 and \$91,740 per suite is obtained.

The Complainant advised the Board that excluding sales number two, three and four due to their size and age, the average sale price would be \$96,000 per suite and the median would be \$101,680 per suite. The Complainant used the Respondent's time adjustment factors for 2010 multi residential properties.

In support of their cap rate, the Complainant provided a third party report from Cushman & Wakefield (Exhibit C-1, page 17). The chart indicated the overall cap rate for multi-family residential sales in Edmonton was 6.7%.

The Complainant requested a 2010 assessment of \$14,400,000 based on the City's potential income and the direct sales comparison approach.

## **POSITION OF THE RESPONDENT**

The Respondent produced a binder for the low rise multi-residential properties under appeal on October 22, 2010. The binder has 15 tabs and is 169 pages. The Respondent reviewed the binder with the Board.

The Respondent advised the Board that the Gross Income Multiplier (GIM) is the correct method of estimating the value of the subject property and was the method used. A GIM is predicted by a model developed from the analysis of validated sales. The model is applied to the entire low rise inventory to produce an estimated typical GIM for each property as of July 1, 2009 (Exhibit R-1, page 7).

The Respondent advised the Board the valuation specifications and significant variables regarding the model. The Respondent advised that the typical vacancy rate was 4% in market area 11.

The Respondent reviewed some sections of the Appraisal of Real Estate with the Board;

Tab 2, page 16, "Deriving capitalization rates from comparable sales is the preferred technique when sufficient data on sales of similar, competitive properties is available. Data on each property's sale price, income, expenses, financing terms, and market conditions at the time of sale is needed. In addition, the appraiser must make certain the net operating income of each

comparable property is calculated and estimated in the same way that the net operating income of the subject property is estimated.”

Tab 2 page 18, An overall capitalization rate provides compelling evidence of value when a series of conditions are met:

- Data must be drawn from properties that are physically similar to the property being appraised and from similar (preferably competing) markets. Where significant differences exist for a given comparable, its indications are afforded less weight or may be discarded entirely.
- Sale properties used as sources for calculating overall capitalization rates should have current date of sale and future market expectations, including income and expense patterns and likely value trends, that are comparable to those affecting the subject property.
- Income and expenses must be estimated on the same basis for the subject property and all comparable properties.
- The comparable property’s price must reflect market terms, or an adjustment for cash equivalency must be possible.
- If adjustments are considered necessary for differences between a comparable and the subject property, they should be made separately from the process of calculating the overall capitalization rate and should be based on market evidence.

The Respondent stated the Complainant did not give any evidence or vacancy allowance in the disclosure to dispute the vacancy rate used by the City (Exhibit R-2, page 13). The income conversion factor, whether cap rate or GIM, should be applied to the same type of income for the comparables as the subject. When buying a property, a purchaser will consider the opportunity to increase rents when negotiating the purchase price. With the income increased to market, a purchaser can’t pay the same multiple as when the rents are low as the potential to increase rents is no longer there.

One cannot simply take an average of cap rates from sales - a capitalization rate reflects specific characteristics of the sale. This includes:

- Income level (risk to the income stream) and
- Required rate of return to the investor (based on the income in place and the physical attributes of the property, such as age, condition and size of the overall investment).

The Respondent provided the Board with a chart detailing four sales of larger investment walk-up apartment buildings (Exhibit R-1, page 162) that had sold in 2009 (2 sales) and 2008 (2 sales). The time adjusted sale price per suite ranged from \$101,162 to \$124,107. The sales were similar to the subject property in terms of age, condition and number of stories. The median time adjusted sale price per suite is \$105,620 which is approximate the assessment of the subject property at \$108,503. The average time adjusted sale price per suite is \$109,127, which is marginally higher than the assessment per suite.

When the Respondent’s “typical” PGR and “typical” vacancy are applied to the four comparable sales (2<sup>nd</sup> part of chart), the comparable sales provide GIMs ranging from 10.33 to 11.04, which support the assessment of 10.15.

The second part of the chart also provided the same sales using typical potential gross rents (PGR) and typical vacancies as opposed to the actual PGR and vacancy provided by the Network documents. In this chart when “typical” rents and “typical” vacancy are used and after the deduction of expenses of \$3,400 per suite, a cap rate of 6.62% is produced. When applied to the net operating income (NOI) of \$1,035,788, the indicated value is \$15,646,000 which supports the assessment of \$15,656,000.

The Respondent provided the Board with five equity comparables, all located in market area eleven. The comparables were similar in terms of age, condition, number of suites and all had elevators. The median of the five equity comparable is \$108,844 per suite which supports the subject property’s assessment of \$106,503 per suite.

The Respondent advised the Board that the Complainant’s methodology was flawed and indicates a misleading representation of value.

## **DECISION**

The decision of the Board is to confirm the 2010 assessment of \$15,656,000 as fair and equitable.

## **REASONS FOR THE DECISION**

1. The GIM of the subject property at 10.20 is lower than all of the sales comparables and supports the subject’s GIM.
2. The Board was persuaded by the equity comparables put forth by the Respondent on large investment walk- up apartments. The median per suite of the four comparables is \$109,127 which is slightly higher than the per suite assessment of \$106,503.
3. The Board notes the City is predicting a potential gross income for the subject property to be \$1,599,571, whereas the subject property is actually generating \$1,647,962, making the Board question why the assessment should be altered.
4. The Board accepts the procedure of selecting a median value and a sample of four is an acceptable number of sales for the mass appraisal method stratification model.
5. The Board placed little weight on the Complainant’s third party support information from Cushman and Wakefield as it covered the entire City of Edmonton and it was not broken down into areas. In addition, the report was not broken down into specific types of multi-family properties such as high rise, low rise and row houses.
6. The Board accepts that the cap rate approach is an accepted methodology for valuation. However, the Board was not persuaded by the Complainant’s use of the cap rate approach (C-1, page 2). The Complainant had supplied seven comparable sales all close to the subject property to derive the expenses per suite and also a cap rate for the subject property. However, the Board did note that, while the comparables were close, not all were comparable due to the size and age

differential. The Board noted there was little evidence or documentation on the sales expenses to support the figure provided by the Network.

7. The Board concluded that the Complainant is using inconsistent methodology to value the subject property. The Complainant is applying GIMs and cap rates derived from the Network's reported actual income to the Respondent's typical income. This inconsistency results in an unreliable estimate of market value. The Board believes that, under appraisal theory, typical income, vacancy and cap rates should be derived and applied in the same consistent manner.
8. The Board therefore concludes the Complainant did not provide sufficient or compelling evidence to alter the assessment.

### **DISSENTING OPINIONS AND REASONS**

There was no dissenting opinion.

Dated this 16<sup>th</sup> day of November, 2010, at the City of Edmonton, in the Province of Alberta.

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**Robert Mowbrey**  
**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.*

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cc: Municipal Government Board  
Gold Bar Developments Ltd.