



ASSESSMENT REVIEW BOARD

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NOTICE OF DECISION NO. 0098 557/10

CVG Canadian Valuation Group Ltd.
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 27, 2010, respecting a complaint for:

Roll Number 9827379	Municipal Address 2203 38 Street NW	Legal Description Plan: 7823018 Block: 20 Lot: 1
Assessed Value \$2,588,000	Assessment Type Annual - New	Assessment Notice for 2010

Before:

Susan Barry, Presiding Officer
Taras Luciw, Board Member
Tom Eapen, Board Member

Board Officer: Annet N. Adetunji

Persons Appearing: Complainant

Tom Janzen, CVG

Persons Appearing: Respondent

Abdi Abubakar, Assessment and Taxation Branch
Steve Lutes, Law Branch

PRELIMINARY MATTERS

1. At the commencement of the hearing, the parties were sworn in.
2. 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.

BACKGROUND

The property is a low rise, 22 unit, walk up apartment building, located in the Daly Grove neighbourhood of southeast Edmonton in Multi-Residential Market Area 9. The building was constructed in 1982 and is considered to be of average condition.

ISSUES

The Complaint Form identified five reasons for complaint, summarized as follows:

1. The assessment is incorrect and inequitable because it is greater than the market value on July 1, 2009;
2. The potential gross rent is greater than the typical or market rents and greater than the actual rent on July 1, 2009;
3. The vacancy rate used by the City is lower than the actual vacancy rate for the subject property;
4. The Gross Rent Multiplier used by the City is higher for the subject than similar properties;
5. The capitalized 2008 net operating income is lower than the assessment amount.

At the hearing, the Complainant advised that he accepted the Respondent's typical rents as well as the vacancy rate and did not dispute the actual Gross Income Multiplier. The Complainant also abandoned the issue relating to equity. Remaining for the Board to determine are the following:

1. In applying the Income Approach to valuation, should the assessment be calculated using a specific capitalization rate (cap rate) rather than using the Gross Income Multiplier (GIM) model employed by the Respondent?
2. Does the assessment reflect fair market value on the valuation date of July 1, 2009?

LEGISLATION

The Board has regard for ss. 467(1) and 467(3) of the *Municipal Government Act*, R.S.A. 2000, c. M-26 (MGA) prohibiting the alteration of an assessment that is fair and equitable and also s.2 of *Matters Relating to Assessment and Taxation Regulation* (M.R.A.T) regarding the requirement to assess property using mass appraisal.

POSITION OF THE COMPLAINANT

The Complainant does not dispute the Respondent's GIM directly. He accepts the Potential Gross Income (PGI) and vacancy rate used by the Respondent in its calculations and, consequently, the Effective Potential Gross Income (EPGI). At that point, however, he parts ways with the Respondent and argues that the Capitalization method should then be introduced in order to reduce the EPGI by either typical or calculated expenses to obtain a Net Operating Income (NOI) against which a specific cap rate should be applied in order to achieve fair market value.

To determine the requested cap rate, the Complainant, recognizing that there were very few sales specific to the valuation date, produced sales comparables that spanned a number of years in several market areas. These sales were provided by The Network. The Complainant time adjusted the sales where appropriate and compiled cap rates from these reports and determined average and median cap rates from what he felt were the most appropriate sales. The Complainant supported the rate by reference to a portion of a Cushman & Wakefield report on Edmonton Multifamily Sales 2009 that listed total sales of multi-family properties by category and the resulting cap rates between 2000 and 2009 and which showed increasing cap rates from 2007 through 2009. The Complainant did not provide an overall capitalization rate study or analysis to validate the requested rate either by assessment class in general or as to a market area in particular.

The Complainant requested that a cap rate of 6.5% per cent be used on his calculated NOI to achieve the requested assessment of \$2,400,000.

POSITION OF THE RESPONDENT

The Respondent argued that they employed the GIM methodology for multi-family residential properties because it more appropriately accounts for the multiple variables in this assessment class, particularly in a period of limited sales. Information from market surveys obtained from property owners, tested and validated, allows for site-specific GIMs.

The Respondent further argued that choosing some components from one method and applying these to some components of a different method produces inherently flawed results. This position is supported by reference to the various real estate appraisal texts and publications introduced by the Respondent in Tabs 2 through 5 of the Respondent's Exhibit R-1. The Respondent argues that to produce a fair market value under the mass appraisal system, data must be derived and applied consistently within a consistent model. In support of this position the Respondent points to, among other material, Municipal Government Board Decision Letter 040/09 in Tab 7 of R-1 and Municipal Government Board Order MGB 075/10 in Tab 8 of R-1.

DECISION

The 2010 assessment is confirmed at \$2,588,000.

REASONS FOR THE DECISION

The Board accepts the Respondent's argument that the Complainant cannot use part of the GIM methodology – the part that generates typical rents, for example - to achieve PGI and then interpolate part of another methodology to achieve fair market value. All the components must

be consistent within themselves for each approach to value. That discussion is well reasoned in the MGB Order noted above and is not reproduced here.

Because the Complainant did not provide any direct evidence to challenge the Respondent's GIM rate and in the absence of an over-arching analysis of capitalization rates for the assessment class to justify the requested cap rate, the complaint fails and the assessment is confirmed.

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

Susan Barry, 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
820414 Alberta Ltd