



ASSESSMENT REVIEW BOARD

MAIN FLOOR CITY HALL
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NOTICE OF DECISION 0098 588/10

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 from a hearing held on November 2, 2010, respecting a complaint for:

Roll Number 10005215	Municipal Address 415 Horner Road NW	Legal Description Plan: 7722149 Block: 40 Lot: 3
Assessed Value \$10,480,500	Assessment Type Annual - New	Assessment Notice for 2010

Before:

Dean Sanduga, Presiding Officer
Mary Sheldon, Board Member
Brian Hetherington, Board Member

Board Officer: Karin Lauderdale

Persons Appearing: Complainant

Tom Janzen, CVG

Persons Appearing: Respondent

Devon Chew, Assessment and Taxation Branch
Rebecca Ratti, Law Branch
Amy Murphy, Assessment and Taxation Branch
(observer)

PRELIMINARY MATTERS

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.

Evidence, arguments and submissions from file 4243630 are cross referenced to this file, where applicable.

BACKGROUND

This property, built in 1982, is known as Hartford County and contains 74 row house units (15 two-bedroom units and 59 three-bedroom units).

ISSUE(S)

The Complainant attached to the complaint form a schedule listing numerous issues. Most of these issues had been abandoned. The underlying issue in the hearing was whether the assessment of the subject property accurately reflected its market value on the valuation date.

More specifically, the issue was:

When applying the income approach to value for the subject, should a capitalization rate be used in the calculation of the assessment or should the Gross Income Multiplier be used?

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 Complainant advised the Board that he accepted the Potential Gross Income (PGI) and vacancy rate for the subject as calculated by the Respondent. However, he argued that, rather than applying a Gross Income Multiplier (GIM) to the resulting Effective Gross Income (EGI) as the Respondent had done, the appropriate method of valuing the subject according to the income approach to value was the capitalization method. To do this, the Complainant argued that expenses should be applied to reduce the Effective Gross Income and that an appropriate capitalization rate should be applied to the resulting Net Operating Income (NOI) to obtain a value for the subject property (C-1, page 2).
- With respect to the operating expenses to be deducted from the Effective Gross Income, the Complainant suggested that a figure of \$4,200 would be appropriate. This figure was calculated by analyzing the income statements of similar row house complexes (C-1, page 1).

- In order to determine an appropriate capitalization rate, the Complainant provided to the Board details of sales of row house properties. Since there were so few recent sales of row houses, the Complainant provided a list of low-rise and row house sales from 2004 (C-2) and a list of low-rise and row house sales from 2005(C-3). He also provided a list of low-rise sales from 2009(C-4) The Complainant argued that the average capitalization rates derived from these sales demonstrated that row houses were achieving somewhat lower capitalization rates than the low-rise walk up properties. From these figures, he concluded that a capitalization rate of 6.75% would be appropriate to apply to the subject.
- Taking into account these figures and applying a capitalization rate of 6.75% to the NOI the Complainant requested that the Board reduce the assessment of the subject to \$9,146,500.

POSITION OF THE RESPONDENT

- The Respondent advised the Board that the Gross Income Multiplier method was used in the valuation of all multi-family residential properties. The Respondent further advised that all multi-family residential properties were valued by this method, as it took into account all the different variables in this class of properties, resulting in more accurate assessments. The PGI and vacancy rates used by the Respondent are based on typical levels of income as reported by property owners in their rent rolls pursuant to the Annual Requests for Information.
- The Respondent noted for the Board that, while the Complainant used the Respondent's estimate of PGI and vacancy rates for the subject, the Complainant then chose to derive an appropriate capitalization rate from sales using information derived from Network documents. The Respondent argued that there was no evidence that this information was based on the same levels of income and vacancy rates as were used in the calculation of the PGI. As illustration, the Respondent provided the Board with details of identical sales from different reporting agencies (R-1, page 155 to 170). This demonstrated that different capitalization rates are derived if different levels of income are used. As further illustration, the Respondent provided information (R 3) which shows different capitalization rates derived if different levels of income were used.
- As well, the Respondent argued that the Complainant was comparing low-rise walk up apartments with row housing complexes in support of his view that the capitalization rates achieved by row house projects were typically less than those achieved by low-rise projects. The Respondent indicated that these two types of properties were not comparable.
- The Respondent also argued that the operating expenses applied by the Respondent to arrive at a Net Operating Income were not correct and not typical of a row house complex (R-2, page 27).
- The Respondent asked the Board to confirm the assessment of the subject at \$10,480,500.

DECISION

The decision of the Board is to confirm the 2010 assessment of the subject at \$10,480,500.

REASONS FOR THE DECISION

- With respect to the issue of the appropriate methodology to use when employing the income approach to value, the Board accepts the position of the Respondent that the capitalization method, as presented by the Complainant is flawed. The Board took note of the information provided by the Respondent in “The Appraisal of Real Estate, Second Edition” published by the Appraisal Institute (R-1, page 15-20) which states:

“Data on each property’s sale price, income, expenses, financing terms and market conditions at the time of sale are needed. In addition, the appraiser must make certain that 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.”

- The Board notes that the Complainant used the Respondent’s calculation of PGI, which is based on typical levels of income and vacancy rates, but chose to derive a capitalization rate based on data inconsistent with that used by the City of its calculation of the PGI.
- As well, the Board accepts the Respondent’s submission that a capitalization rate for the subject property should not be derived from the sales of low-rise projects, as these are not comparable to row house projects, thus making the derivation of the capitalization rate unreliable.
- Further, in order to apply the capitalization approach to income valuation, an appropriate level of operating expenses must be deducted from the Effective Gross Income to arrive at the Net Operating Income. The Complainant did not provide convincing evidence that the level of operating expenses he proposed was appropriate.

For these reasons, the Board concludes that the Complainant has not provided sufficient evidence to demonstrate that the assessment of the subject is incorrect or inequitable and accordingly, the assessment of the subject is confirmed.

Dated this 26th 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
Andromeda Investments Ltd..