



ASSESSMENT REVIEW BOARD

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NOTICE OF DECISION 0098 596/10

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 3rd 2010, respecting a complaint for:

Roll Number 3053857	Municipal Address 10730 102 Street NW	Legal Description Plan: B4 Block:2 Lot: 284, etc.
Assessed Value \$2,859,500	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

Bozena Anderson, Assessment and Taxation
Branch
Cameron Ashmore, 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.

All parties giving evidence during the proceedings were sworn in by the Board Officer.

The evidence, arguments and submissions from file # 8113359 are cross-referenced to this file where applicable.

BACKGROUND

The subject property is a 33 suite apartment complex located in central Edmonton. It was built in 1968 and contains 22 one-bedroom suites and 11 two-bedroom suites.

ISSUE(S)

The Complainant had attached, pursuant to Section 5 of the complaint form, a schedule listing numerous issues. However, most of those issues had been abandoned.

The issues remaining for the Board to decide were :

- The underlying issue is to determine if the assessment accurately reflects the market value of the subject. In particular, what is the appropriate methodology in calculating the income approach to value for the subject property?
- When considering sales of similar properties, is the 2010 assessment of the subject property reflective of 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

- With respect to the income approach to value, the Complainant submitted to the Board that he accepted the Potential Gross Income (PGI) and the vacancy rate applied by the Respondent. However, the Complainant argued that, rather than applying a Gross Income Multiplier (GIM) to the resulting Effective Gross Income as the Respondent had done, the appropriate method of valuing the subject according to the income approach was the capitalization method. To do this, the Complainant argued that typical expenses of \$3,400 per suite should be applied to reduce the Effective Gross Income and that an appropriate capitalization rate should be applied to the Net Operating Income (NOI) to obtain a value for the subject property (C-1, page 2).

- To determine an appropriate capitalization rate, the Complainant presented the Board with details of seven sales of low-rise apartment buildings which showed a median capitalization rate for the five most recent sales of 6.77% and an average capitalization rate for the five most recent sales of 6.96% (C-1, page 2). The Complainant also presented information published by Cushman and Wakefield which showed that the average capitalization rate for Edmonton multi-family sales in 2009 was 6.7% (C-1, page 16). Based on the above information, the Complainant suggested that a capitalization rate of 7.00% was appropriate.
- With respect to the Direct Sales approach to value for the subject, the Complainant argued that the seven sales presented (C-1, page 2) had an average time-adjusted sale price of \$80,890 per suite. The Complainant further submitted to the Board that, since the subject has a different suite mix than most of the comparables, a value of \$81,000 per suite for the subject would be reasonable. He indicated to the Board that this is substantially less than the assessment for the subject of \$86,651 per suite.
- Taking into account the figures obtained by applying both the capitalization method of the income approach to value, as well as the values obtained by considering the Direct Sales approach to value, the Complainant asked the Board to reduce the 2010 assessment of the subject property to \$2,665,000 (C-1, page 3).

POSITION OF THE RESPONDENT

- The Respondent advised the Board that the assessment of the subject low-rise apartment building was valued by the income approach to value, employing the Gross Income Multiplier methodology. 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 argued that, while the Complainant accepted the Respondent's estimate of PGI and vacancy rates for the subject property, he nevertheless chose to derive an appropriate capitalization rate for the subject property from sales using income information derived from Network documents. The Respondent argued that there was no evidence that this Network information was based on the same levels of income and vacancy rates as were used in the calculation of the PGI. The Respondent presented a chart (R-2, page 27) which demonstrated that different capitalization rates are derived if different levels of income are used.
- To further highlight this inconsistency, the Respondent presented to the Board a chart of information from three reporting agencies which showed different income information from the same sales (R-1, Tab 5, page 116). The Respondent submitted to the Board that the Complainant could not use the City's estimate of PGI which was predicated on a typical level of income and then proceed to derive a capitalization rate from financial information which used inconsistent income levels, expenses and vacancy rates.
- With respect to the valuation of the subject property using the Direct Sales approach to value, the Respondent argued that the sales presented by the Complainant were of properties showing substantial differences from the subject property in age, suite mix, location, etc. The Respondent indicated that these differences would have an effect on the value and should be accounted for with appropriate adjustments. The Respondent argued further that taking an average of the time-adjusted sales prices per suite and applying it to

the subject, as the Complainant had done, would result in an incorrect value for the subject.

- The Respondent requested that the Board confirm the 2010 assessment of the subject property at \$2,859,500.

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, which states:

“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 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 Edmonton in its calculation of the PGI.
- The Board also places little weight on the extract from the Cushman and Wakefield report provided by the Complainant, which shows 2009 capitalization rates of 6.7%. No information was provided on the transactions which form the background for this chart.
- With respect to the Direct Sales approach to value which was presented by the Complainant to support his argument that the assessment is not correct, the Board is not persuaded by the sales comparables presented by the Complainant. (C1, page 2).
- The Board is of the opinion that an appropriate value per suite cannot be obtained by taking an average of the time-adjusted sale price per suite of the comparables, as there are too many differences between the comparables and the subject property to make a valid comparison without significant adjustments.
- In conclusion, the Board is of the opinion that the Complainant did not present sufficiently compelling evidence on either issue before the Board to persuade it that the 2010 assessment for the subject should be reduced.

DECISION

The decision of the Board is to confirm the 2010 assessment at \$2,859,500.

Dated this 23 day of November, 2010, at the City of Edmonton, in the Province of Alberta.

Dean Sanduga
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
John C. Manning c/o Canadian Valuation Group
William A. C. Rowe./Barrister, Solicitor & Notary Public
Roy Widney