



REGIONAL MUNICIPALITY
OF WOOD BUFFALO

Composite Assessment Review Board

REGIONAL MUNICIPALITY OF WOOD BUFFALO BOARD ORDER CARB 010-2010

IN THE MATTER OF A COMPLAINT filed with the Regional Municipality of Wood Buffalo Composite Assessment Review Board (CARB) pursuant to Part 11 of the *Municipal Government Act* being Chapter M-26 of the Revised Statutes of Alberta 2000 (Act).

BETWEEN:

Colliers International Realty Advisors - Complainant

- a n d -

Regional Municipality of Wood Buffalo - Respondent

BEFORE:

Members:

P. Mowbrey, Presiding Officer

E. McRae, Member

S. Odemuyiwa, Member

Board Administration:

N. MacDonald, Clerk for the Assessment Review Boards

A. Rogers, Senior Legislative Officer

A hearing was held on August 13, 2011 in the Regional Municipality of Wood Buffalo in the Province of Alberta to consider complaints about the assessments of the following property tax roll numbers:

Roll No./ Property identifier	Assessed value	Owner
50580740	\$ 16,776,140	LREIT Holdings 13 Corporation
50580750	\$ 16,776,140	LREIT Holdings 13 Corporation
50580760	\$ 16,776,140	LREIT Holdings 13 Corporation
50500960	\$ 41,798,591	LREIT Holdings 44 Corporation
71025170	\$ 4,310,460	LREIT Holdings 43 Corporation
71014030	\$ 3,704,070	LREIT Holdings 42 Corporation
71013590	\$ 2,209,420	LREIT Holdings 38 Corporation
71002190	\$ 3,862,152	LREIT Holdings 33 Corporation
71007300	\$ 1,109,200	LREIT Holdings 40 Corporation
71004240	\$ 2,751,990	LREIT Holdings 41 Corporation

PART A: BACKGROUND AND DESCRIPTION OF PROPERTIES UNDER COMPLAINT

The subject properties are walk-up apartments and there are 10 apartment buildings with a total of 587 units represented. It is noted that the Complainant contends that combined, the subject properties constitute a considerable percentage of the local multi-family rental inventory.

The properties under Roll numbers 50580740, 50580750 & 50580760 collectively refer to a multi-family residential development called Nelson Ridge located at 101 Loutit Road, in the newer Timberlea area of Fort McMurray. The property consists of 3 buildings each of which contains 75 two bedroom, two bathroom units. Each suite contains a refrigerator, stove, dishwasher and microwave as well as a washer and dryer. The suites are carpeted and window coverings are included. There is a balcony for each suite as well as an intercom security system. Each building has an elevator. There is a central children's play area and ample, energized parking is provided.

The property under Roll number 50500960 refers an apartment constructed in 2007, a newer development, and known as Laird's Landing. The project is located at 302 Parsons Creek Drive, in the Confederation Heights neighborhood of the Timberlea area of Fort McMurray. Laird's Landing consists of two 4 storey apartment buildings, each of which has 6 one bedroom suites and 88 two bedroom suites. One of the buildings also has a single 385 Sq. Ft. bachelor suite. One building features fully furnished suites including linens and fully equipped kitchens. In this newer area are recently constructed schools, park and shopping facilities which are located near the property.

Roll number 71013590 is a 24 unit apartment building, constructed in 1964, and known as the Lunar Apartments. It is located at 2 Alberta Drive, in the older area of Fort McMurray, known as the Lower Townsite.

Roll number 71007300 known as Parkland Apartments, built in 1964, is an older 12 unit apartment building located at 10125 Franklin Avenue, in the Lower Townsite, of Fort McMurray.

Roll number 71014030 refers to the Snowbird Manor apartment development, constructed in 1973, located at 5 Clearwater Crescent, also located in the Lower Townsite area of Fort McMurray. This is an older project which contains a total of 34 suites.

Roll number 71025170 refers to a project know as Whimbrel Terrace. This development is located at 9600 Manning Avenue, in the older Lower Townsite area of Fort McMurray. The project, constructed in 1975, contains a total of 37 units, some furnished, with 12 one bedroom suites, 18 two bedroom suites and 7 townhouse units.

Roll number 71002190 is a 37 unit apartment building, constructed in 1975 and is known as Gannet Place. It is located at 9602 Franklin Avenue, in the Lower Townsite area.

Roll number 71004240 refers to the Skyview Apartments, a 29 unit development, constructed in 1978, located at 9908 Gordon Avenue, in the Lower Townsite area.

PART B: PROCEDURAL or JURISDICTIONAL MATTERS

The presiding officer questioned the Complainant and Respondent if there were any objections to the composition of the CARB. There were no objections. The CARB members indicated there was no bias to the files before them.

The Complainant's evidence and issues for each of the subject properties is identical, as is the Respondent's evidence, and as all the properties were presented at the hearing, it is the CARB's opinion that one written Decision addressing all the subject properties listed is appropriate.

The CARB derives its authority to make this decision under Part 11 of the Act.

PART C: ISSUES

Issue 1 - The assessment amount is not reflective of the correct application of the Assessment Range of Key Factors, Components, and Variables – 2011 Multi Residential. Key factors, components, and variables include location, quality, year of construction, number of units, and suite mix configuration. The assessment amount is not reflective of the proper application of the criteria for each assessment range for the properties.

Issue 2. - The valuation model is not reflective of the correct representation of the relationship between the subject property's characteristics and their value in the real estate marketplace. The factors, variables and coefficients within the valuation model are not reflective of the correct representation and/or relationship between the subject property and the assessment amount.

Issue 3 - The assessment amount is not reflective of the Highest and Best Use of the subject property. Proper consideration given to legal permissibility, physical possibility, financial feasibility, and maximum profitability is not evident in the assessment amount. The result is an assessment amount that is neither fair nor equitable.

Issue 4 - The assessment amount is not reflective of the correct application of the Income Approach to Value, specifically the Direct Capitalization Method or Gross Income Method as a primary or secondary approach to value. Proper consideration to the following is not evident in the assessment amount for the properties.

1. The timing, direction, and magnitude of a change in the real estate market.
2. Location and quality differences, in relative terms, with respect to lease rates, vacancy allowance, operating costs, capitalization rates, and gross income multipliers.
3. Typical market rent, vacancy, operating costs, capitalization rate, and gross income multiplier applied to atypical subject properties.
4. Typical, chronic, vacancy effect on subject properties income and risk.
5. Leased Fee versus Fee Simple capitalization rate, gross income multiplier.

6. Lump sum deduction from value for installation and removal of tenant improvements versus deduction from rent.

Issue 5. The assessment amount is not reflective of the correct application of the Comparison Approach to Value as a primary or secondary approach to value. Proper adjustment of comparable sales and assessments for ancillary sources of income, property rights, financing, market change, land use, physical and economic characteristics, and improvements contribution to value are not correctly reflected in the assessment amount.

Issue 6. The result of the foregoing is an assessment amount for the subject properties that is neither fair nor equitable relative to the assessment of similar properties in the same jurisdiction.

However, as of the date of this hearing, only the following issues remained in dispute:

ISSUE 1:

Is the vacancy rate(s) incorrect in the application of the Income Approach to Value as utilized by the Respondent to achieve the assessed value(s) of the subject properties.

ISSUE 2:

Is the expense ratio(s) incorrect in the application of the Income Approach to Value as utilized by the Respondent to achieve the assessed value of the subject properties.

DECISION: ISSUE 1

The Complainant submitted that the effects of the recession and credit crunch which began in the 3rd quarter of 2008 had not yet dissipated and still has a negative effect upon the local economy and the real estate market and, in particular, the vacancy rates of the subject properties.

The impact to the real estate market has not reversed itself, in fact the Complainant contends, the vacancy rates have continued to increase into 2010.

The Complainant presented evidence, C1 and C2, to support the view that vacancy rates had remained as high as the previous year or increased during the year July 01, 2009 to June 30, 2010. The Complainant indicated in recent years vacancy in Wood Buffalo had been extremely low and as such many accommodation/rental projects were constructed, now Wood Buffalo finds itself with a current oversupply of rental accommodation at the date of valuation, June 30, 2010.

The Complainant stated it had been recommended to him by an earlier CARB, Board Order 009-2010, that a wide sampling of rent rolls for the subject properties be submitted to demonstrate vacancy rates over the course of the year. In response, the complainant presented rent rolls for 8 to 10 months for each of the subject properties for the assessment year, July 1, 2009 to June 30, 2010, C1 pages 25 – 156. Provided also was a recap summary of the rent rolls that indicate a median vacancy rate of 38%, C1 page 15, and is the vacancy rate requested by the Complainant for the properties under review. The Complainant argued that a majority of the subject properties are older vintage style properties located in older communities which suffer higher vacancy and have a slower recovery from an economic downturn compared to the newer properties which

tend to recover more quickly. A sampling of the rent rolls and vacancies provided by the Complainant for each of the subject properties follow:

Property Identifier (Timberlea Area)	# of Units	Year Built	Vacancy 2009 July	Vacancy 2009 Dec	Vacancy 2010 June
50580740/50/60, Nelson Ridge Estates	225	2002	44%	48%	23%
50500960, Laird's Landing Apts	189	2007	46%	40%	16%

Property Identifier (Lower Townsite Area)	# of Units	Year Built	Vacancy 2009 July	Vacancy 2009 Dec	Vacancy 2010 June
71013590, Lunar Apt	24	1967	29%	42%	50%
71007300, Parkland Manor Apt	12	1964	42%	58%	83%
71014030, Snowbird Apt	34	1973	32%	68%	79%
71002190, Gannet Place Apt	37	1975	3%		38%
71025170, Whimbrel Terrace Apt	37	1975	16%	24%	47%
71004240, Skyview Apt	29	1978	38%	55%	24%

The Complainant also presented as comparables, rent rolls and vacancies of 3 properties that are not under review, C2. They are Lakewood Manor, located at 108 Loutit Road with 111 units which reported 0% vacancy at July 01, 2009 but 87% vacancy at June 30, 2010. The high vacancy is a result of the employees of one company occupying the property. Another is Woodland Park located at 230 Wilson Drive, with 107 units supported by rent rolls for 9 months and reported 42% vacancy at July 31, 2009 and 16% at June 30, 2010 and also, Parsons Landing located at 350 Parsons Creek with 160 units and supported by rent rolls for 8 months, which reported 21% vacancy at July 31, 2009 and 27% vacancy at July 31, 2010.

The Complainant introduced general vacancy data in the form of CMHC Rental Market statistics and commented that this data is collected from many different types of apartment buildings and units. That reliance cannot be placed on the specific data, but can be seen as an indicator of the general trend for the vacancy in Fort McMurray.

The information is dated October 2007/08/10, April 2008/09/10, and clearly shows a trend of increasing vacancy rates from a low of 0.01% in April 2008 to a high of 10% in October of 2009. The trend continues to climb as indicated by the CMHC report dated April 2010 which shows a vacancy rate of 13.2%. The Complainant also made note of the indication that the greatest vacancy impact was evident with 2 bedroom (or larger) units which is a very significant portion of the subject properties.

The Respondent outlined the steps required of the Assessor for preparation of a value estimate for assessment purposes using the Mass Appraisal process and more specifically, the Income Approach, C1 page 4, where it states "For the purpose of the 2011 Annual Assessment, multi residential properties were valued based on their income potential using 2010 market information." The 2010 market information is received from property owners, the result of a Request for Information letter sent to each property owner by the assessor.

In valuing the subject properties the assessor applied a vacancy rate of 15% to the newer properties, explaining they were newer, had more amenities and facilities close-by and were located in a newer area of Fort McMurray. The older vintage properties located in an older area were allocated a 20% vacancy rate.

The assessor explained to the CARB that the vacancy rates applied are derived from the property specific financial information provided to the assessor by the property owners, shown in R1, and is labeled the Modified Cash Operating Statement at a Fiscal Year End, specific to the subject property. The following schedule details the vacancies derived from the financial information provided by the owners and is the basis for the vacancy factor of 15% which was applied to the newer properties and 20% to the older vintage properties.

Property Identifier (Timberlea Area)		# of Units	Year Built	Modified Cash Operating Statement Year End	
					Vacancy
50580740/50/60, Nelson Ridge Estates		225	2002	June 30/09	40%
50500960, Laird's Landing Apts		189	2007	Mar 31/09	8%
Property Identifier (Lower Townsite)		# of Units	Year Built	Modified Cash Operating Statement Year Ending	
					Vacancy
71013590, Lunar Apt		24	1967	Sept 30/09	20%
71007300, Parkland Manor Apt		12	1964	Sept 30/09	29%
71014030, Snowbird Apt		34	1973	Sept 30/09	24%
71002190, Gannet Place Apt		37	1975	Sept 30/09	8%
71025170, Whimbrel Terrace Apt		37	1975	Sept 30/09	8%
71004240, Skyview Apt		29	1978	Sept 30/09	26%

The CARB reviewed the evidence presented by the complainant and the Respondent. The CARB analyzed the vast volume of evidence provided by the Complainant and is of the opinion this information, in the form of multi rent rolls and vacancies for the subject properties and other properties, for the year July 01,2009 to June 30, 2010, represents the market and shall be treated as comparable data.

The CARB noted that the newer properties appeared to recover from the downturn over the valuation year with a general drop in vacancy, whereas the older vintage properties showed a tendency of an increase in vacancy over the year. This trend is also demonstrated by the CMHC statistic, indicating an increase in vacancy over the year. The Complainant based the request for a vacancy factor of 38% on the basis it is the median % from all of the vacancies taken from the multi rent rolls and vacancies reported by all of the subject properties.

The CARB noted that the "Modified Cash Operating Statement" for each of the subject properties that the Respondent relied on to derive the vacancy factor for assessment purposes, is for the Year End March 31, 2009, June 30, 2009 and September 30, 2009. Clearly not information that reflects "the income potential using 2010 market information", rather it is

information 9 to 15 months out of date. The CARB was informed by the Respondent that a request was made to the Complainant for more current information but none was received.

The CARB recognizes the assessor would not have access to the July 2010 rent rolls of the subject properties to prepare the assessment but it seems unlikely that the assessor would be unaware of the increase in vacancies to the older vintage properties, such as the subject properties, at the valuation date.

It is the opinion of the CARB that the 15% vacancy factor applied in the Income Approach to Value to achieve the assessment value for the newer subject properties, Roll #'s 50580740, 50580750 & 50580760, is appropriate, as it is supported by the rent rolls and vacancy information for those properties provided by the Complainant.

It is the opinion of the CARB that the 20% vacancy factor applied in the Income Approach to Value to achieve the assessment value for the older vintage subject properties is incorrect as each of the comparable rent rolls and vacancies of this type of property reflected a significantly higher vacancy. However, the vacancy rates derived by the assessor from the "Modified Cash Operating Statements" for each of the properties are closer to the 20% factor, but the information is outdated and the vacancies were shown to have increased up to June 30, 2010. The Complainant requested a 38% factor, but taking into consideration the Respondent's verbal evidence that the 20% factor, according to the request for information responses from property owners, seems to be typical for that age and type of property in Fort McMurray.

The CARB is of the view that an appropriate vacancy factor to be applied in the Income Approach to Value to achieve the assessment values for the older vintage subject properties is found between the two factors of 20% and 38%, and finds the average of 29% is fair and equitable.

DECISION: ISSUE 2

The Complainant requested the CARB's consideration of the different expense ratios utilized in the assessment values of the subject properties, a 25% expense ratio which was applied in the Income Approach to Value in the assessment of the newer properties, compared to a 35% ratio for the older vintage properties. The Complainant requested that the 35% ratio be applied to all the properties.

The Respondent indicated the reason for the different expense ratios is the older properties tend to have higher expenses in maintenance, and repair/replacements and the higher allowance is for these reasons.

The Complainant provided no evidence to support a change from 25% to 35% in the expense ratios for the newer properties, Roll #'s 50580740, 50580750 & 50580760. For this reason the CARB supported the 25% expense ratio to remain in effect for the newer properties and the request for a higher expense ratio is denied.

The Complainant did not initially state capitalization rates as an issue for the subject properties, but requested the CARB to review them as there were 3 different capitalization rates utilized in the Income Approach to Value to achieve the assessment values for the subject properties. The newer properties, Roll #'s 50580740, 50580750 & 50580760 use an 8.25% capitalization rate,

the oldest vintage properties, constructed in 1964 and 1967, use a 12.50% capitalization rate, and the remaining vintage properties, constructed in the 1970's, use a 10.75% capitalization rate.

The Respondent explained the capitalization rate reflects the risk involved with the investment in the properties, as well as the age and condition and reasoned that the newer properties would have the lowest capitalization rate, the 50 year old properties would have the highest capitalization rate and the remaining older vintage properties would be in the middle. The Respondent indicated the capitalization rates are established using market data.

Since the Complainant provided no evidence to the CARB/assessor to support the request for a review, the CARB finds the capitalization rates utilized in the Income Approach to Value for the purpose of assessment values, for the subject properties, shall remain in effect.

PART D: FINAL DECISION

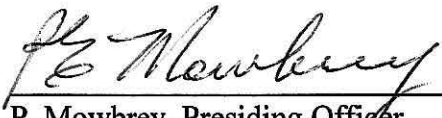
The assessments are Confirmed/Revised as follows:

Roll No./ Property identifier	Assessed value	CONFIRMED ASSESSMENT
50580740	\$ 16,776,140	\$ 16,776,140
50580750	\$ 16,776,140	\$ 16,776,140
50580760	\$ 16,776,140	\$ 16,776,140
50500960	\$ 41,798,600	\$ 41,798,600

Roll No./ Property identifier	Assessed value	REVISED ASSESSMENT
71025170	\$ 4,310,460	\$ 3,813,230
71014030	\$ 3,704,070	\$ 3,292,340
71013590	\$ 2,209,420	\$ 1,963,430
71002190	\$ 3,862,150	\$ 3,433,110
71007300	\$ 1,109,200	\$ 985,650
71004240	\$ 2,751,990	\$ 2,439,520

It is so ordered.

Dated at the City of Edmonton in the Province of Alberta, this 09 day of September 2011.


P. Mowbrey, Presiding Officer

APPENDIX "A"

DOCUMENTS RECEIVED AND CONSIDERED BY THE CARB:

NO. ITEM

1. Exhibit C1 – Requested Changes for Rolls 50580740, 50580750 and 50580760
2. Exhibit C2 - Rebuttal
3. Exhibit R1 – Assessment Brief for Rolls 50580740, 50580750 and 50580760
4. Exhibit R2 – Law and Legislation for all Roll #'s
5. Exhibit R3 – Appendix for all Roll #'s
6. Exhibit C1 – Requested Changes for Roll 50500960
7. Exhibit R1 – Assessment Brief and Law and Legislation for Roll 50500960
8. Exhibit C1 – Requested Changes for Roll 71025170
9. Exhibit R1 – Assessment Brief and Law and Legislation for Roll 71025170
10. Exhibit C1 – Requested Changes for Roll 71014030
11. Exhibit R1 – Assessment Brief and Law and Legislation for Roll 71014030
12. Exhibit C1 – Requested Changes for Roll 710131590
13. Exhibit R1 – Assessment Brief and Law and Legislation for Roll 71013590
14. Exhibit C1 – Requested Changes for Roll 71002190
15. Exhibit R1 – Assessment Brief and Law and Legislation for Roll 71002190
16. Exhibit C1 – Requested Changes for Roll 71007300
17. Exhibit R1 – Assessment Brief and Law and Legislation for Roll 71007300
18. Exhibit C1 – Requested Changes for Roll 71004240
19. Exhibit R1 – Assessment Brief and Law and Legislation for Roll 71004240

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FOR ADMINISTRATIVE USE ONLY

Column 1	Column 2	Column 3	Column 4	Column 5
CARB	Residential	Walk Up Apartment	Income Approach	Vacancy Rate
				Expense Ratio