

Edmonton Composite Assessment Review Board

Citation: Capital Management Ltd. as Represented by Altus Group v The City of Edmonton, 2014 ECARB 00757

Assessment Roll Number: 9994244
Municipal Address: 11003 29A Avenue NW
Assessment Year: 2014
Assessment Type: Annual New
Assessment Amount: \$22,188,000

Between:

Capital Management Ltd. as Represented by Altus Group

Complainant

and

The City of Edmonton, Assessment and Taxation Branch

Respondent

DECISION OF

John Noonan, Presiding Officer
Howard Worrell, Board Member
Jack Jones, Board Member

Procedural Matters

[1] Upon questioning by the Presiding Officer the parties indicated they did not object to the Board's composition. In addition, the Board members stated they had no bias with respect to this file.

Preliminary Matters

[2] There were no preliminary matters

Background

[3] The subject property was built in 1978. It is a walk up apartment complex of five buildings located at 11003 29A Avenue in the Ermineskin subdivision of the City of Edmonton. The five apartment buildings contain 60 one bedroom apartments, 100 two bedroom apartments and 20 three bedroom apartments. The 2014 assessment for the property based on the income approach is \$22,188,000.

Issue

[4] Is the Potential Gross Income (PGI) assessed to the subject by the City of Edmonton too high?

Position of the Complainant

[5] An evidence package, Exhibit C-1 of 27 pages, was provided, which included photos, the subject rent roll, an income approach summary and detailed PGI calculations to support the Complainant's claim that the 2014 assessment is too high. While the 2% vacancy allowance and Gross Income Multiplier (GIM) were not at issue, the Complainant argued the assessed PGI of \$2,160,399 is too high when the recent leases from the rent roll are examined.

[6] The Complainant submitted the best indicator of the subject's market rent potential was shown by the recent leases at the subject itself. For the 1, 2 and 3 bedroom categories, the Complainant examined all leases signed in the 6 month period prior to the validation date. If an insufficient number of leases were found, the timeframe was extended up to 1 year. The Complainant found approximately 30 leases spread amongst the 3 categories and determined a median recent rent for each. By this method a potential gross income of \$2,008,000 was found.

[7] During questions from the Respondent on the property rent roll, the subject was shown to have parking and laundry income. This income had been overlooked in the PGI calculations provided by the Complainant. These revenues for laundry of \$25,920 and parking for \$2,880 totaled \$28,800. When added to the PGI calculations, the actual PGI would change to \$2,037,600. By using the PGI of \$2,037,600 and the agreed upon vacancy rate and GIM, the Complainant requested a reduction of the 2014 assessment from \$22,188,000 to \$20,926,500.

Position of the Respondent

[8] In defense of the 2014 assessment, the Respondent provided an Assessment Brief Exhibit, R-1 of 86 pages that contained Mass Appraisal principles, outline of the Potential Gross Income Model, photos and site maps of the subject property.

[9] The Respondent provided an overview of the Potential Income Model and outlined that typical market rent data is collected and used as of the valuation date of July 1, 2013. This information is obtained from owners through the annual Request for Information.

[10] The Respondent provided six comparable rental properties in the area of the subject that showed one bedroom asking rental rates that ranged from \$949 to \$1,129 per month and two bedroom asking rental rates that ranged from \$1,075 to \$1,449 per month. Only one comparable property had, like the subject, three bedroom apartments. The asking rental rate was \$1,395 per month for these.

[11] The Respondent also presented a third party report from CBRE showing market rental rents in the Southwest Area of the City of Edmonton for the 2nd quarter of 2013. This report showed one bedroom rental rates to be \$1,024, for 2 bedroom units \$1,203 and three bedroom units to be \$1,328.

[12] To further support market rental rates in the subject area, a chart from Canada Mortgage and Housing was presented by the Respondent. This showed that for South West Zone 7, where the subject is located, monthly rental rates as of October 2012 for a one bedroom unit were \$962, for a two bedroom unit \$1,112, and for a three bedroom unit \$1,263.

[13] The Respondent referred the Board to an excerpt from the Property Appraisal and Assessment Administration Manual where it addresses Potential Gross Rent. "Potential gross rent is the rent that would be collected if the property were fully occupied at market rent. In

estimating potential gross income the appraiser distinguishes between *market rent* (sometimes called economic rent) and *contract rent*. Market rent is the rate prevailing in the market for comparable properties and is used in calculating market value by the income approach. Contract rent is the actual amount agreed to by the landlord and tenant” (R-1, p. 39).

[14] The Respondent stated that the use of typical market rents, rather than actual rents is supported by common industry practice, legislation and previous decisions.

[15] Though equity was not raised by the Complainant, the Respondent provided a chart of Equity Comparable properties in the same area as the subject showing assessments of various properties that ranged from \$91,914 to \$127,641 per suite. The comparable apartment complexes varied from 21 to 205 suites and included all low-rise properties in market area 7 built between 1970 and 1985. The subject’s assessment yields a per suite value of \$123,266 which is nearer the high end of the range established, but equitable given that the subject has a high proportion of two-bedroom apartments.

[16] Based on the evidence provided the Respondent requested the 2014 assessment be confirmed at \$22,188,000.

Decision

[17] The Board confirms the 2014 assessment at \$22,188,000.

Reasons for the Decision

[18] The Board noted that the 2% vacancy rate and Gross Income Multiplier used by the City of Edmonton in the Income Detail Report were not in dispute.

[19] Upon being questioned by the Respondent on the omission of the laundry and parking income, the Complainant agreed to the inclusion of this income of \$28,800 to their calculations. If this income was included in the PGI calculations done by the Complainant, the potential gross income would have been \$2,037,600. This would produce a value of \$20,926,500 or 96.4% of the 2014 assessment value.

[20] Rental evidence presented to the Board by the Respondent on the first five of the six comparable rental rates properties had amenities like swimming pools, attached daycare, playgrounds, tennis courts, saunas, fitness equipment, and/or exercise rooms and as such were probably superior to the subject. The last comparable property, called the Gemini, had similar amenities to the subject including three bedroom apartments; the Board found these published rental rates to be informative and supportive of the assessment.

[21] The Respondent provided a Canada Mortgage and Housing Corporation Private Apartment Rates and a third party report from CBRE that showed market rental rates in the South West where the subject is located. The Board employed these third party rates in a PGI test for the subject, and the results produced numbers comfortably in excess of the City of Edmonton’s assessed PGI of \$2,160,399. The corresponding results from CMHC and CBRE rates are \$2,330,160 and \$2,499,600.

[22] As to the Valuation method used and the argument of using typical income values as opposed to actual, the Board accepted the Respondent’s position on this matter. Section 2 of the


Matters Relating to Assessment and Taxation Regulation, Alta. Reg. 220/2004 (MRAT) states that assessments must reflect typical market conditions for properties similar to that property.

[23] The Complainant did not provide evidence to satisfy the Board the subject could not generate a typical level of income.

[24] The Board finds that the 2014 assessment of the subject at \$22,188,000 is fair and equitable.

Heard June 30, 2014.

Dated this 10th day of July, 2014, at the City of Edmonton, Alberta.



John Noonan, Presiding Officer

Appearances:

Brett Flesher, Senior Analyst, Altus Group
for the Complainant

Devon Chew, Assessor, The City of Edmonton
Paul Harper, Assessor, The City of Edmonton
for the Respondent

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, RSA 2000, c M-26.

Appendix

Legislation

The *Municipal Government Act*, RSA 2000, c M-26, reads:

s 1(1)(n) “market value” means the amount that a property, as defined in section 284(1)(r), might be expected to realize if it is sold on the open market by a willing seller to a willing buyer;

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.

The *Matters Relating to Assessment and Taxation Regulation* Alta. Reg. 220/2004 reads:

s 2 An assessment of property based on market value

(a) must be prepared using mass appraisal,

(b) must be an estimate of the value of the fee simple estate in the property, and

(c) must reflect typical market conditions for properties similar to that property.

Exhibits

C-1 – Complainant’s Brief (27 pages)

R-1 – Respondent’s Brief (86 pages)