# CALGARY
# ASSESSMENT REVIEW BOARD
# DECISION WITH REASONS

In the matter of the complaint against the Amended Property assessment as provided by the *Municipal Government Act*, Chapter M-26.1, Section 460(4).

**between:**

***Assessment Advisory Group, COMPLAINANT***

**and**

***The City Of Calgary, RESPONDENT***

**before:**

***W. Kipp, Presiding Officer***
***A. Blake, Board Member***
***J. Rankin, Board Member***

This is a complaint to the Calgary Assessment Review Board in respect of an Amended Property assessment prepared by the Assessor of The City of Calgary and entered in the 2010 Assessment Roll as follows:

**ROLL NUMBER:** **201 545 597**

**LOCATION ADDRESS:** **1710 Radisson Drive SE, Calgary**

**HEARING NUMBER:** **60454**

**ASSESSMENT:** **$16,380,000 (Amended)**

This complaint was heard on the 3rd day of February, 2011 at the office of the Assessment Review Board located at Floor Number 4, 1212 – 31 Avenue NE, Calgary, Alberta, Boardroom 3.

Appeared on behalf of the Complainant:

- T. Howell, S. Cobb

Appeared on behalf of the Respondent:

- C. Neal

**Property Description and Assessment Background:**

The property that is the subject of this complaint is a 12 storey 130 unit apartment building, known as Radisson Place Apartments, located in the Radisson Heights community of southeast Calgary. There are 55 one bedroom units and 75 two bedroom units. On the ground floor is a 9,506 square foot commercial space occupied as offices by a property management company. The building was constructed in 1987. Vehicle parking is accommodated on the site.

The property was assessed for the 2010 tax year by use of an income approach. The Respondent's application of the income approach on multi-family residential properties is to apply market rental rates to the rental units, make an allowance for vacancies and then apply a Gross Income Multiplier (GIM) that has been extracted from sales of other similar properties.

In the subject assessment, the assessor applied market rental rates of $875 per month for the 55 one bedroom units and $1,025 per month to the 75 two bedroom units. A 5% allowance was made for vacancies. The resulting effective gross income was multiplied by a 10.5 GIM. Based on rates for similar space, the 9,506 square feet of main floor commercial space was valued at $150 per square foot. In total, the property assessment was $16,380,000.

**Issues:**

The Complainant raised the following matters in section 4 of the complaint form: *Assessment amount (No. 3 on form).*

An attachment pertaining to Section 5 of the Complaint form contained a "generic" list of issues relating to the valuation methodology, valuation input factors and equity matters. However, at the hearing, the only issues that remained in dispute were the rental rates applied to the apartment units and the assessment rate applied to the main floor commercial space.

**Complainant's Requested Value:**

$13,700,000

**Board's Decision in Respect of the Issues:**

The Complainant sought to have the assessment reduced by applying lower rental rates to the one and two bedroom units in the building. There was no disagreement with the 5% vacancy rate nor with the 10.5 GIM. Further, the main floor space should have been assessed using an income approach rather than being simply added at a flat rate per square foot.

Rent rolls and operating information for the property which were provided in evidence and with the Assessment Request for Information (ARFI) indicated that the actual rents for apartments in the building included parking and all utilities (heating fuel, water, sewer and electricity). The Complainant maintained that rents for apartments in similar properties did not include parking and utilities or at the least did not include parking or electricity. The Complainant calculated that these inclusions caused actual rental rates to be 18% higher than market rates for net suite rent.

Based on the 2009 rent roll, average rents in the subject property were $893 and $1,019 per suite per month for one and two bedroom suites, respectively. The assessment was based on respective rents of $875 and $1,025 per suite per month. After deducting for utilities and parking, the requested rental rates were $732 and $836 per suite per month, respectively.

There were no other highrise apartment buildings in the subject market zone. In support of the contention that rents applied in the subject assessment were excessive, the Complainant provided data on two other highrise apartment properties – one in the downtown core and one in the Beltline (south downtown). Both of these areas are superior to the subject market zone, therefore rents for apartment units should be higher than those in the subject. For the downtown property, one bedroom suite rents averaged $831 per month while two bedroom suite rents averaged $942 per month. For the Beltline property, rents were $800 per month for one bedroom units.

Additional support was in the Fall 2009 Canada Mortgage and Housing Corporation (CMHC) apartment study that showed that downtown and Beltline apartment rents were higher than those in the subject zone for two bedroom units. For one bedroom units, rents were higher downtown but lower in the Beltline.

To value the commercial space, the Complainant extracted rental rates from two other Calgary commercial properties and converted the rents into a value estimate by the direct capitalization of net operating income. The Complainant valued the commercial space at $1,384,430 which was 2.91% lower than the amount in the assessment for this space.

The Respondent explained the assessment methodology. For the apartment units, an income approach is used. Market rental rates are set on the basis of rents reported in ARFI's from property owners and managers in the market zone. A vacancy allowance is deducted from the potential gross income and the resulting effective gross income is multiplied by a gross income multiplier (GIM), extracted from market sales.

Respondent evidence included a chart with details on three equity comparables. There are no other highrise apartments in the subject market zone so the selected comparables were from two southwest zones and one in the northeast. Two of the comparable buildings were 16 storeys in height which is not too dissimilar to the 12 storey subject. The comparables were assessed using different rental rates, vacancy rates and GIM's. All three properties had a commercial component. Assessments for these properties were $138,080, $155,537 and $121,736 per apartment unit (before the additions for commercial space), compared to $115,096 per unit for the subject property apartments.

Standard procedure for commercial space in an apartment property is to add for that space at a flat rate per square foot. The rate is based on assessments of other commercial space in comparable properties.

## Findings

In view of the above considerations, the Composite Assessment Review Board (CARB) finds as follows with respect to the Issues:

The Board was concerned about the Respondent's analysis of rents for apartments. The ARFI returns from owners and managers include space for the reporting of operating expenses and there is a space for respondents to state what is or is not included in the rents. For the subject, the ARFI showed that heat, electric and water/sewer were included but the box for parking was not ticked. The income amount for parking does not indicate that additional rent is paid for all available parking stalls. The Respondent does not go through ARFI's and make adjustments for inclusions prior to using the reported rents in its rent study. If it is standard for respondents to the ARFI to not be specific on rent inclusions/exclusions, it follows that the chosen "market rents" are probably a mix of rates where some include parking and/or utilities.

The Complainant argued that the rent rates used by the Respondent were high by 18%. The Board finds that total expenses for "Heat, Venting, Air Conditioning, Water, Sewer & Power" are 18.6% of the potential gross income and there was no explanation of where parking was worked into the calculations. The operating statement includes $5,385 for parking revenue. There was no explanation of this income amount. It is assumed that this could be rents for additional stalls for some apartment tenants or stalls rented to employees of the tenant in the commercial space.

The Complainant's evidence included an operating statement for the downtown comparable. From the expense statement, it was calculated that utility costs amounted to $1,983 per apartment unit in the year prior to the 2009 sale date. By comparison, utility expenses for the subject property are $2,366 per apartment unit for 2009. There was no operating statement detail for the Complainant's Beltline comparable. Notwithstanding that there was a time difference (2008 versus 2009 operating years), the difference in utility expenses is about $32 per suite per month. This amount certainly does not show that the downtown building has all utilities billed separately to tenants. Parking revenue for the downtown property included about $118 per month per parking stall. There was no explanation of how this revenue was generated. It may have come from tenants, from outside parkers or from a mix of the two but that was not disclosed. In any event, there is no evidence to indicate whether some apartment rents included parking.

The Respondent does not add any income amounts for parking, laundry or any other revenue for apartment property assessments. Assessments are based only on apartment unit rents.

Notwithstanding the perceived shortcomings in the ARFI reporting system, the Board is satisfied that the Respondent applies the assessment methodology in a consistent manner and the subject property is not treated any differently than other similar properties in the city. Mass Appraisal requires the input of market rental rates. Actual rental rates from the subject property, even before adjustment, do not provide a valuation that is consistent with the assessments of other, similar properties.

The Board does not accept the Complainant's contention that the subject rents should be reduced to account for all utilities that may be included for tenants. Typically, in a highrise apartment property, tenants are not billed separately for heat, water and sewer. There are also many other multi-family residential properties where electricity is included in rents and not metered and billed directly to tenants. There was no evidence before the Board from either party that showed that additional rent was typically charged for parking in suburban apartment properties.

The Board is also satisfied that the assessment of commercial space in the building is adequately supported and the valuation method is applied in a fair and consistent manner for similar properties.

**Board's Decision:**

The Amended 2010 Assessment is confirmed at $16,380,000.

**DATED AT THE CITY OF CALGARY THIS 9 DAY OF February 2011.**

W. Kipp

**W. Kipp**
**Presiding Officer**

**SUMMARY OF EXHIBITS**

Exhibit

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|---|---|
| C1 | Assessment Review Board Complaint Form |
| C2 | Disclosure of Complainant's Evidence |
| R1 | Respondent's Assessment Brief |

*An appeal may be made to the Court of Queen's Bench on a question of law or jurisdiction with respect to a decision of an assessment review board.*

*Any of the following may appeal the decision of an assessment review board:*

*(a) the complainant;*

*(b) an assessed person, other than the complainant, who is affected by the decision;*

*(c) the municipality, if the decision being appealed relates to property that is within the boundaries of that municipality;*

*(d) the assessor for a municipality referred to in clause (c).*

*An application for leave to appeal must be filed with the Court of Queen's Bench within 30 days after the persons notified of the hearing receive the decision, and notice of the application for leave to appeal must be given to*

*(a) the assessment review board, and*

*(b) any other persons as the judge directs.*