

**CALGARY
ASSESSMENT REVIEW BOARD
DECISION WITH REASONS**

In the matter of the complaint against the property assessment as provided by the *Municipal Government Act*, Chapter M-26, Section 460, Revised Statutes of Alberta 2000 (the Act).

between:

Petwin Development Company Ltd. (as represented by Linnell Taylor Assessment Strategies), COMPLAINANT

and

The City Of Calgary, RESPONDENT

before:

***W. Kipp, PRESIDING OFFICER
R. Cochrane, MEMBER
R. Kodak, MEMBER***

This is a complaint to the Calgary Assessment Review Board in respect of a property assessment prepared by the Assessor of The City of Calgary and entered in the 2011 Assessment Roll as follows:

ROLL NUMBER:	058 033 507
LOCATION ADDRESS:	406 – 7 Street NW, Calgary AB
HEARING NUMBER:	61411
ASSESSMENT:	\$5,070,000

This complaint was heard on the 2nd day of November, 2011 at the office of the Assessment Review Board located at Floor No. 4, 1212 – 31 Avenue NE, Calgary, Alberta, Boardroom 4.

Appeared on behalf of the Complainant:

- *J. David Sheridan (Linnell Taylor Assessment Strategies)*

Appeared on behalf of the Respondent:

- *Shirley Poon (Assessment Business Unit)*

Board's Decision in Respect of Procedural or Jurisdictional Matters:

File 61411 did not contain the Complainant Disclosure. That document had been filed on time but the roll number under which it was transmitted was incorrect. The Respondent had received the document and had no objections to the Board having the City of Calgary Assessment Review Board (ARB) clerk print it from the file. Copies for Board members were printed and the hearing proceeded. There were no other procedural or jurisdictional matters to be decided by the Board.

Property Description:

The property that is the subject of this complaint is a 3.5 storey walk-up apartment known as Sunnyside Manor, located in the Sunnyside community which is across the Bow River from the westerly part of downtown. The building, constructed in 1975 contains 29 apartment units: 4 x One Bedroom; 22 x Two Bedroom and 3 x Three Bedroom.

The 2011 assessment of \$5,070,000 was prepared using an income approach which utilizes a Gross Income Multiplier (GIM) which is applied to the Effective Gross Income (EGI) based on typical rents and vacancy. The assessment equates to \$174,828 per apartment unit.

Issues:

The Assessment Review Board Complaint form received by the ARB on March 3, 2011 had a check mark beside No. 3 (Assessment amount) in Section 4 (Complaint Information). In Section 5 (Reason(s) for Complaint), there was an attachment stating that the assessment was excessive (based on market sales and on application of an income approach) and inequitable compared to assessments of similar properties.

At the hearing, the Complainant focussed on 1) the vacancy allowance used in the income approach, 2) the impact of the three bedroom suites on value in a sales comparison application and, 3) equity when compared to assessments of similar properties.

Complainant's Requested Value: \$4,560,000

Party Positions on the Issues:**Complainant's Position:**

1) Vacancy

The Assessment Request for Information (ARFI) response from the Complainant submitted in May 2010 showed a vacancy loss of \$43,825 against potential gross income of \$378,410 for 2009. That loss represented a vacancy rate of 11.58%. A rent roll for January 2010 showed nine vacant suites which indicated a vacancy rent loss of 31.03%.

The assessment is based on a typical vacancy loss of 4.5%.

The Complainant applies the 13.0 GIM which is the multiplier used in making the assessment, to the EGI indicated on the ARFI for 2009 to arrive at a value of \$4,340,000.

2) Market Sales – Suite Mix

The Complainant breaks the assessment into three parts (for each of the three suite types) in order to show the impact of the various suite types. Using the typical rent for each suite type, the typical 4.5% vacancy and the 13.0 GIM, the breakdown is:

One Bedroom suite assessment:	\$141,531	0.79 assessment ratio
Two Bedroom suite assessment:	\$178,776	1.00 assessment ratio
Three Bedroom suite assessment:	\$192,929	1.079 assessment ratio

Four recent sales of similar apartment properties were found. Some details of the sales are:

Sale #	1	2	3	4
Location	717-17 Ave NW	330-2 Ave NE	1401-1 St NW	1319-17 Ave NW
Year Built	1968	1977	1963	1978
Suite Mix	15 x 1 BR	25 x 1 BR 15 x 2 BR	12 x 1 BR	18 x Bachelor 8 x 1 BR
Sale Date	February 2010	March 2010	April 2010	March 2011
Price/Suite	\$150,000	\$137,500	\$108,333	\$119,231

The Complainant uses the assessment ratios that were calculated for the subject property to allocate sale prices to each unit type in the four comparable properties. Then, the median rate for each unit type is applied to the units in the subject. The result is:

One Bedroom units @ \$125,036
Two Bedroom units @ \$158,273
Three Bedroom units @ \$192,929

For an indicated property value of \$4,560,000

There were no three bedroom units in any of the sale properties so the subject assessment rate for that unit size was used as the price.

3) Equity

Assessment data was gathered on two smaller but similar apartment properties in the market area. Both properties were very similar to each other with 17 One Bedroom suites and 11 Two Bedroom suites. Overall, the assessments of these properties were identical at \$156,071 per unit. This equity evidence supports the Complainant's requested assessment of \$157,241 per unit.

The Complainant concludes that *"the evidence from the subject ARFI/Rent Rolls indicates the benefit of the three 3-Bedroom units plus a preponderance of 2 Bedroom units implied in the assessment model has not translated into the actual subject performance and is furthermore clearly inequitable."*

Respondent's Position:

1) Vacancy

For fairness and equity, a typical vacancy rate should be applied to all properties in a particular stratum.

The ARFI for a one year period and a rent roll for one month are insufficient evidence of a chronic vacancy problem.

2) Market Sales – Suite Mix

The Respondent argues that assessments on multi-family residential properties are not prepared using a sales comparison approach. No sales data was provided in Respondent disclosure.

It is further argued that a sales comparison approach is only reliable when properties are identical. When there are variances between properties such as there are with the subject and the sales comparables used by the Complainant, the Complainant's arbitrary "assessment ratio" analysis is not an acceptable valuation procedure to deal with suite size variances.

3) Equity

A table of 2011 Assessment Comparables provides data on four apartment properties in Sunnyside. Assessed value per suite is set out for each property as well as assessed value per room. The Respondent argues that this latter unit of comparison is valid because of the varying suite mixes in the properties. For example, none of the comparables have three bedroom suites whereas the subject property has three. Rents are typically set on the number of bedrooms in a suite, among other things. Three bedroom suites rent for more than one or two bedroom suites. The contribution to value of the extra bedrooms must be recognized and comparison on the basis of assessment per room is one method of giving that factor recognition. The table shows that the subject property has the lowest assessment per room at \$44,156 whereas the comparables that contain only one and two bedroom suites have assessments from \$45,706 to \$46,027 per room.

Board's Decision:

The 2011 assessment is confirmed at \$5,070,000.

Board's Findings and Reasons for the Decision:

1) Vacancy

- The ARFI for the 2009 calendar year plus the January 2010 rent roll are insufficient proof of an ongoing or chronic vacancy problem.
- The January 2010 rent roll shows vacancies in one and two bedroom suites. The less common three bedroom suites were fully occupied that month.
- The Complainant accepts the typical rents as applied by the assessor and the GIM but disagrees with the vacancy allowance. In the application of the income approach, it is the actual Effective Gross Income (EGI) of \$334,585 that is used rather than the typical EGI adjusted for vacancy. If the requested vacancy rate is 11.58%, then the EGI in the formula should be \$361,655 and not \$334,585. This makes a difference of over \$350,000 in the indicated value.

2) Market Sales – Suite Mix

- Total income and prices/values of apartments are direct products of suite types and mixes. Two bedroom suites typically rent for more than one bedroom suites and three bedroom suites typically rent for more than two bedroom suites. Apartment properties with larger numbers of two and three bedroom suites generate higher total income than properties where there is a preponderance of bachelor or one bedroom suites.
- The sales provided by the Complainant are somewhat similar to the subject but they are not directly comparable. Properties do not have to be identical for sales comparison to provide a realistic value of the subject but they must be similar with variances accounted for by supported adjustments. Two of the comparables have all one bedroom suites. One comparable has a high ratio of bachelor suites and some one bedroom suites but no two or three bedroom suites. None of the comparables have three bedroom suites.
- The Complainant's "assessment ratio" analysis is not a recognized method of adjusting for variances in suite types/mixes.
- Apartment sale prices are a function of income whether actual or potential. Non-market rents or abnormal operating expenses can influence a price. For this reason, income for each comparable must be given some consideration. A small amount of income information is available from the sales reports from Realnet. One sale had a Net Operating Income (NOI) that was 73% of Potential Gross Income (PGI). Another sale had a ratio of 61% of NOI to PGI. There was no data for the other two sales. Two of the purchases were not motivated by income potential (purchased for social housing) but income was most likely a motivational factor for the vendors of those two properties. The Complainant gave no heed to income in applying the sales comparison approach. The only adjustment analysis was the "assessment ratio" analysis which the Board does not accept.
- Physical factors such as parking can influence a sale price. One property reportedly has

nine parking stalls for 12 apartment units and another has just 17 stalls for 40 apartment units. This physical characteristic was not addressed by the Complainant.

- A comparison of Complainant's sales 1 and 2 shows how the lack of explanation of variances between properties leads to unacceptability of the sales analysis. Both sales occurred within one month of each other (February and March 2010). Sale 1 was a property with all one bedroom suites. It was built in 1968. It sold for \$150,000 per suite. Sale 2 had a mix of one and two bedroom units and it was nine years newer but it sold for \$137,500 per unit. No explanation was offered for the variance.

3) Equity

- The Complainant's equity comparables are very similar to one another but not to the subject property. The assessments on the comparables are \$156,071 per suite. When the mix of suites (60% One Bedroom and 40% Two Bedroom) and building ages (1969 versus 1975) are taken into account, this per unit assessment cannot be said to support the requested \$157,241 per unit.
- Assessment per room is not always an ideal unit of comparison but it is useful when comparables have vastly different suite mixes as in this case. Given economies of scale, the lower per room rate for the subject appears to be realistic.

DATED AT THE CITY OF CALGARY THIS 18 DAY OF November 2011.



W. Kipp
Presiding Officer

APPENDIX "A"**DOCUMENTS PRESENTED AT THE HEARING
AND CONSIDERED BY THE BOARD:**

NO.	ITEM
1. C1 (Presented at the Hearing)	Complainant Disclosure
2. R1	Respondent Disclosure
3. C2	Complainant Rebuttal

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.*

For Administrative Use:

Appeal Type	Property Type	Property Sub-Type	Issue	Sub-Issue
CARB	Residential	Walk-up Apartment	Income Approach	Vacancy rate
			Sales Approach	Comparables
			Equity	Comparables