



## ASSESSMENT REVIEW BOARD

Churchill Building  
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Edmonton AB T5J 0G9  
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### NOTICE OF DECISION NO. 0098 141/11

Peter Smith, CVG  
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 (CARB) from a hearing held on August 15, 2011, respecting a complaint for:

Roll Number	Municipal Address	Legal Description	Assessed Value	Assessment Type	Assessment Notice for:
7789993	10505 70 AVENUE NW	Plan: 1863RS Block: 3 Lot: D	\$2,033,000	Annual New	2011

#### Before:

Larry Loven, Presiding Officer  
Francis Ng, Board Member  
John Braim, Board Member

**Board Officer:** Jason Morris

#### Persons Appearing on behalf of Complainant:

Peter Smith, CVG

#### Persons Appearing on behalf of Respondent:

Meghan Richardson, City of Edmonton  
Tanya Smith, City of Edmonton

## **PRELIMINARY MATTERS**

None raised at the outset of the hearing.

## **BACKGROUND**

The subject property is an eighteen suite, two and one-half story apartment building, built in 1969 and located in the neighbourhood of Allendale. The suite mix is one bachelor, 5 one bedroom and 12 two bedroom suites.

## **ISSUE(S)**

The matter indicated in Section 3 of the complaint form was “3. *an assessment amount*”. Reasons accompanying the complaint form are summarized as follows:

- a) the assessment amount exceeds the market value and is inequitable;
- b) the Potential Gross Income is greater than typical or market income;
- c) the vacancy rate is lower than actual;
- d) the Gross Income Multiplier is higher than that derived from sales of similar properties;
- e) the assessment to sales ratio of similar properties supports a lower assessment;
- f) the assessment amount is excessive; and
- g) the assessment should be reduced to \$1,750,000.

## **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**

The Complainant provided the Board with a brief (C-1) indicating the assessment had been produced using the Income Approach to value and in particular had used the Gross Income Multiplier (GIM) method. The evidence indicated the Respondent had applied the GIM to an effective gross income of \$184,543, whereas the income from the statements supplied showed the effective gross income was actually \$135,337 for the year ending December 2009 and \$142,720 for the year ending December 2010. In addition the evidence provided indicated the rent roll at June 2010 was also lower at \$144,380.

The Complainant provided the Board with a chart detailing the sale of 6 comparable apartments all located in the same market area as the subject property and all in the average condition like

the subject property. Five of the comparables were of very similar age as the subject, one being older but had been renovated in 2001. Two of the comparables had 11 suites, two had 20 suites and two had 21 suites. The expenses of the comparables ranged from \$3,189 per suite to \$3,623 per suite with an average of \$3,383 per suite. The GIMs ranged from 9.52 to 11.90 with an average of 10.90 and the overall capitalization rates (OCRs) ranged from 5.45% to 6.73% with an average of 6.04%. The Chart also showed the time adjusted sale price per suite ranged from \$79,440 per suite to \$107,244 per suite with an average of \$97,702 per suite. During question period the Complainant stated the price per suite method was an equally valid method to the GIM method providing they were properly time adjusted. He also stated that typical rents as used by the Respondent were city wide and then adjusted for the market areas that the city had determined. The Complainant also argued the income from the subject property would be less per unit than the income of the comparables as they were all located in the heart of old Strathcona, that is a very high demand area. They are also close to the University, the University Hospital and had much better access to the downtown and river valley. The Complainant argued that sales #1, #3, #5 and #6 were the strongest indicators of value and concluded an appropriate GIM indicator of 10.75, a capitalization rate of 6.00% and a value of \$100,000 per suite were appropriate to the subject property.

The Complainant stated the derived GIM of 10.75 when applied to the 2010 actual income of the subject property produces a value of \$1,588,000. With regard to the OCR method the Complainant also stated the expenses were lower than the average of the comparables and it was unnecessary to adjust the subject expenses to match the average of the 6 comparable sale expenses. The actual net operating income of the subject property is \$103,248 and when this figure is capitalized at 6.00% a value of \$1,721,000 is indicated. With respect to the Direct Sales Comparison Approach, the Complainant took a rationalized price of \$100,000 per suite and multiplied this by the number of suites (18) to arrive at a value of \$1,800,000.

From the three indicated values of \$1,588,000 by the GIM method; \$1,721,000 by using the OCR method and \$1,800,000 from the price per suite method, he concluded the assessment value of the subject to be \$1,700,000 and requested the Board to reduce the assessment accordingly.

## **POSITION OF THE RESPONDENT**

The Respondent presented evidence (R-1) and argument for the Board's review and consideration.

The Respondent submitted that "*the City of Edmonton is legislated to utilize Mass Appraisal, which in turn applies typical income, typical vacancy rates and typical GIM to Multi-Residential properties*" (R-1, p. 30). Therefore the Complainant is wrong by valuing the subject property based on the actual rental income and mixed with Network's reported GIM and Cap Rates. There are two MGB decisions support the Respondent's position on this issue: ***Sunlife Assurance Company Canada v. The City of Edmonton* (MGB BO 038/06)** and ***Astoria Manor Ltd. v. City of Edmonton* (MGB No. DL 026/09)** (R-1, p. 96-98).

The Respondent submitted that there are eight Significant Variables in the Potential Gross Income Model:

• Market Area	• Building Type
• Average Suite Size	• Suite Mix
• Effective Mix	• Number of Stories
• Condition	• River Suites

And there are three Significant Variables in the Gross Income Multiplier Model:

• Market Area	• Building Type	• Effective Age
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The City of Edmonton uses Gross Income Multipliers (GIMs) as the basis of determining assessment values for multi-residential properties. To support this concept, the Respondent referred the Board to a quote from “The Appraisal of Real Estate, Second Canadian Edition” published by the Appraisal Institute. The description of Gross Income Multipliers, according to the Institute, is:

*“Gross income multipliers (GIMs) are used to compare the income-producing characteristics of properties. Potential of effective gross income may be converted into an opinion of value by applying the relevant gross income multiplier. This method of capitalization is mathematically related to direct capitalization because rates are the reciprocals of multipliers or factors. Therefore it is appropriate to discuss the derivation and use of multipliers under direct capitalization.”*

The Multi-Residential Assessment Income model *“is an equation that explains the relationship between value or estimated sale price and the variables that influence real-estate value, (i.e., location, age and size).”*

**Market Value Assessment (MVA) = (Potential Gross Income less vacancy allowance) x GIM**

The Respondent explained to the Board that their GIMs are *“predicted by a model developed from the analysis of validated sales. The model is then applied to the entire Low-Rise apartment inventory to produce an estimated **typical** GIM for each property as of July 1, 2010.”* (R-1, p.8) The Respondent also submitted GIMs and capitalization rates from The Network and Anderson Data to illustrate that the results derived from data provided by third parties can vary significantly depending on the sources of the information and the manner in which it is analyzed.

The Respondent indicated that the subject property is located in one of the best rental market areas in the City of Edmonton, because it has the University of Alberta, the University Hospital and a short commute to downtown.

The Respondent provided five sales comparables of low-rise walk-up apartments (R-1, p. 55) with a GIM range of 10.29 to 12.19 to support the Subject property’s GIM of 11.02. All of the five sales comparables are located in the Market Area 3 and the subject property is located in the Allendale neighborhood. Three of the Respondent’s comparable sales are located in Strathcona and the remaining two are in Garneau.

The Respondent argued that the suite mix of the subject property was superior to that of all the sales comparables and the subject property would have a higher value either on a price per suite basis or when utilizing the income approach to value as the PGI would normally be higher with a larger number of two bedroom units.

The Respondent estimated the PGI (Potential Gross Income) to be \$190,250 less the typical vacancy rate of 3%, resulting in an EPGI (Effective PGI) of \$184,543, and then applied a GIM of 11.02 which generates an assessment value \$2,033,000.

The Respondent also submitted equity comparables located in the same neighborhood (R-1, p.56) to demonstrate that the assessment per suite of the subject property of \$112,944 falls in the per suite range of the equity comparables' assessments (\$108,566 to \$122,187).

## **DECISION**

It is the decision of the Board to reduce the 2011 assessment from \$2,033,000 to \$1,840,000.

## **REASONS FOR THE DECISION**

The vacancy rate of 3% for the subject property was accepted by both the Complainant and the Respondent.

The Board finds that the capitalization rate of 6%, with adjustments to the net operating income, used by the Complainant to support a market value lower than the assessment, is determined from the average of capitalization rates of third party information used by the Complainant. The Board notes these are also the same sales comparables used by the Complainant in producing the GIM. The Board did not receive any evidence from the Respondent regarding capitalization rates.

The Board accepts that the subject property has a superior suite mix, consisting of 67% two-bedroom suites, than the sale comparables having from 10% to 27% two-bedroom suites. The Board notes that the majority of the Complainant's and Respondent's sales comparables are located more centrally in Market Area 3 within the Strathcona neighbourhood versus the subject property located in Allendale at the southern boundary of Market Area 3. Neither the Complainant nor the Respondent provided specific evidence regarding the variance in value with respect to suite mix or location of a property within Market Area 3.

The Gross Income Multipliers (GIMs) for the sales comparables given by the Complainant were slightly lower than those given by the Respondent. The Respondent provided the Network and Anderson data sheets for each of its sales comparables (R-1, pp. 39-48) to illustrate that there are variances in published GIM and capitalization rates even on the same sale. As no additional evidence was provided by either party to support their GIMs the Board did not place greater weight on one or the other. Furthermore, the Board finds, in part as a result of the variances in GIMs, weight should be placed on the Direct Sales Comparison approach and in particular the price per suite method, rather than using the GIM or the capitalized income approach to determine value. Moreover, the Board finds that the common sales comparables given by both the Complainant and the Respondent provides an indication of value on which it can rely.

The Board finds that of the six sales comparables provided by the Complainant and the five sales comparables provided by the Respondent, both used three of the same sales comparables located at 10556 - 84 Avenue, 10015 - 83 Avenue and 10012/18 - 83 Avenue. The Board finds the common sales comparables used by both the Complainant and the Respondent, have the same time adjusted sale price per suite of \$103,000, \$106,750 and \$97,234 (given as \$111,214 by the Respondent, however the Board finds that the Complainant correctly applied the Respondent's

time adjustment factor, of .8743 to this sale comparable). The average time adjusted sale price per suite of these three common sales comparables is \$102,328; whereas the average of the Complainant's six sales comparables is \$97,702 and the Respondent's five sales comparables is \$102,633.

In its consideration of the above reasons, the Board finds the subject property to be fairly valued at \$102,328 per suite or \$1,840,284, rounded to \$1,840, 000.

### **DISSENTING OPINION AND REASONS**

None noted.

Dated this 9<sup>th</sup> day of September, 2011, at the City of Edmonton, in the Province of Alberta.

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Larry Loven, Presiding Officer

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*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.*

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cc: MARLBOROUGH ACCEPTANCE CORPORATION LTD