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ASSESSMENT REVIEW BOARD

NOTICE OF DECISION NO. 0098 143/11

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:
10003484	9903 88 AVENUE NW	Plan: 0227394 Block: 112 Lot: A	$2,833,500	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 a twenty-six suite, two and one-half story apartment building, built in 1969 and located in the neighbourhood of Strathcona. The suite mix is 15 one bedroom and 11 two bedroom.

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 the assessment should be reduced to $2,350,000.

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 $257,193, whereas the income from the statements supplied showed the effective gross income was actually $248,555 for the year ending December 2009 and $234,778 for 2010. In addition the evidence provided indicated the net operating income for the subject property for the year ending December 2010 was $94,283.

The Complainant provided the Board with a chart detailing the sale of six comparable apartment buildings all located in the same market area as the subject property and all in the average condition like the subject property. Five of the sales comparables were of very similar age as the subject, one being older but had been renovated in 2001. Two of the sales comparables had 11 suites, two had 20 suites and two had 21 suites. The expenses of the sales 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 showed the time adjusted sale 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 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 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, which is a very high demand area. They are also close to the University of Alberta, the University Hospital and had equal access to the downtown and river valley. The Complainant argued that sales comparables #1, #3, and #5 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 $95,000 per suite were appropriate to the subject property.

The Complainant stated that the derived GIM of 10.75 when applied to the 2010 actual income of the subject property produces a value of $2,524,000. With regard to the OCR method the Complainant indicated the expenses of the subject were higher in 2010 than normal (C-1 pp. 14 & 15) due to a number of factors. To compensate the average of the six sales comparables' expenses ($3,383 per suite) was utilized as these were relatively consistent, and this resulted in an adjusted net operating income of $146,820 for the subject property. When this figure is capitalized at 6.00% a value of $2,447,000 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 (26) to arrive at a value of $2,600,000.

From the three indicated values of $2,524,000 by the GIM method; $2,447,000 by using the overall Cap Rate method and $2,600,000 from the price per suite method, he concluded the assessment value of the subject to be $2,500,000 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.33). 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 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. 92-94).

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

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.*" 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 apartment (R-1, p. 40) with a GIM range of 10.29 to 12.19 to support the Subject's GIM of 11.02. All five sales comparables are located in Market Area 3. The subject property is located in the Strathcona neighborhood, as are the three of the Respondent's sales comparable and two are in Garneau.

The Respondent estimated the PGI (Potential Gross Income) to be $265,148 less the typical vacancy rate of 3%, resulting in an EPGI (Effective PGI) of $257,193, and then applied a GIM of 11.02 which generates an assessment value $2,833,500.

The Respondent also submitted equity comparables located in the same neighborhood of Strathcona (R-1, p.53) to demonstrate that the assessment per suite of the subject property of $108,980 falls in the per suite range of the equity comparables' assessments ($106,388 to $112,944).

DECISION

It is the decision of the Board to reduce the 2011 Assessment from $2,833,500 to $2,660,500.

REASONS FOR THE DECISION

The vacancy rate of 3% for the subject party 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 same sales comparables as the GIM. The Board did not receive any evidence from the Respondent regarding capitalization rates.

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 the Board 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 five sales comparables is $97,702 and the Respondent's six sales comparables is $102,633.

In its consideration of the above reasons, the Board finds that the subject property to be fairly valued at $102,328 per suite or $2,660,528, rounded to $2,660,500.

DISSENTING OPINION AND REASONS

None noted.

Dated this 8th day of September, 2011, at the City of Edmonton, in the Province of Alberta.

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Larry Loven, Presiding Officer

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: JKBC HOLDINGS LTD