ASSESSMENT REVIEW BOARD

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NOTICE OF DECISION NO. 0098 144/11

Tom Janzen, 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 16, 2011, respecting a complaint for:

Roll Number	Municipal Address	Legal Description	Assessed Value	Assessment Type	Assessment Notice for:
6374078	9525 129B Avenue NW	Plan: 3355TR Block: 36 Lot: 12B	$1,070,000	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:

Tom Janzen, CVG

Persons Appearing on behalf of Respondent:

Mark Sandul, City of Edmonton
Tanya Smith, City of Edmonton

PRELIMINARY MATTERS

Upon questioning by the Presiding Officer, the parties present indicated no objection to the composition of the Board. In addition, the Board members indicated no bias with respect to this file. No other preliminary matters were raised by the parties at the outset of the hearing.

BACKGROUND

The subject property is a twelve suite, two and one-half storey, low-rise apartment building, built in 1963, and located in the Kilarney neighbourhood within Market Area 10. It contains 1 one bedroom suite and 11 two bedroom suites, and is in average condition.

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 $855,000.

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 an appraisal brief (C-1) and stated that the subject property has been assessed utilizing the Income Approach to Value and in particular the Gross Income Multiplier (GIM) method. The Evidence indicated the Respondents had applied a GIM to an effective gross income of $113,865 whereas the income from the statements supplied by the Complainant showed the effective gross income was actually $92,888 for the year ending December 2008.

The Complainant provided the Board with a chart detailing the sale of six comparable apartments all located in the same market area as the subject property and all in similar condition to the subject property. All the comparables were newer than the subject by 3 to 9 years and the sales took place between September 2009 and July 2010. The total number of suites ranged from 12 suites, like the subject, to 20 suites. The expenses of the comparables ranged from $3,088 per suite to $3,443 per suite with an average of $3,283 per suite. The GIMs ranged from 8.48 to 9.19 with an average of 8.87 and the overall capitalization rates (OCRs) ranged from 7.00% to 7.77% with an average of 7.23%. During question period the Complainant stated the price per suite method was an equally valid method as the GIM method of estimating value, providing the comparables were properly time adjusted. He also stated that typical rents as used by the Respondent were city wide and then subsequently adjusted for the market areas that the city had established. The Complainant argued that sales #3, #4 and #5 are the strongest indicators of value and concluded an appropriate GIM indicator of 8.75; an OCR of 7.25% and a unit value of $80,000 per suite were appropriate to the subject property.

The Complainant stated that the derived GIM of 8.75 when applied to the 2008 actual income of the subject property produces a value of $812,500. With regard to the OCR method the Complainant used the 2008 actual net operating income of $50,771 for the subject property. When this figure is capitalized at 7.25% a value of $700,000 is indicated. Finally the Complainant applied the price per suite method, namely 12 x $80,000 per suite resulting in a value of $960,000.

From the three indicated values of $812,500 by the GIM method; $700,000 by using the OCR method and $960,000 using the sales price per suite approach, he concluded the assessment value of the subject to be $850,000 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 capitalization rates. There are two MGB decisions that 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-2, Tab 5, p. 36-38)**.**

The Respondent submitted that there are eight Significant Variables in the Potential Gross Income Model (R-2, Tab 1, p. 12):

• 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 (GIM) 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 (R-2, Tab 2, p.19):

> "*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-2, p.7). The Respondent also submitted GIM 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 submitted that the published gross income, net operating income, GIM and capitalization rate from the third party are not reliable. The Respondent provided a walk-up apartment's sale data sheet from Anderson Data Online (R-2, Tab 4, p. 75), Alberta Data Search (R-2, Tab 4, p.76), Bourgeois & Company (R-2, Tab 4, p.77-78) and The Network (R-2, Tab 4, p. 80). There are many variances on their published gross income, net operating income, GIM and capitalization rate on the same identical sale.

The Respondent indicated that the subject property is located in Killarney within the Market Area 10.

The Respondent provided three sales comparables of low-rise walk-up apartments (R-1, p. 20) with a GIM range of 9.47 to 9.61 to support the Subject's GIM of 9.14. Two of the sales comparables are located in Eastwood and one in Cromdale neighbourhood.

The Respondent estimated the PGI (Potential Gross Income) of the subject property to be $118,609 less the typical vacancy rate of 4%, resulting in an EPGI (Effective PGI) of $113,865, and then applied a GIM of 9.40 which generates an assessment value $1,070,000.

The Respondent also submitted equity comparables located in the same market area as the subject property (R-1, p.25) to demonstrate that the assessment per suite of the subject property

of $89,167 falls in the per suite range of the equity comparables' assessments ($88,625 to $89,714).

DECISION

It is the decision of the Board to reduce the original 2011 assessment to $960,000.

REASONS FOR THE DECISION

The Board finds that of the five sales comparables provided by the Complainant and the three sales comparables provided by the Respondent, both used two of the same sales comparables located at 11816 – 83 Street and 12040 – 82 Street.

The vacancy rate of 4% for the subject party was accepted by both the Complainant and the Respondent.

The Board finds that the capitalization rate of 7.25%, 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 using the same sales comparables as for the GIM. The Board did not receive any evidence from the Respondent regarding capitalization rates. The Board further notes that a capitalization rate is not used by the Respondent to determine the assessed value of multi-residential apartment buildings such as the subject property.

The Board notes that the Complainant's GIMs were from a third party source and the Respondent's determined by their model. No additional evidence was provided by either party to support their figures. The Gross Income Multipliers (GIMs) for the sales comparables given by the Complainant were lower than those given by the Respondent; however, the Board did not place greater weight on one or the other.

The Respondent provided a table of the Complainant's sales comparables to illustrate that there are variances between the Network and assessed GIM factors. In part, due to the these variances, the Board found it necessary to place reliance upon the Direct Comparison approach in order to determine the time-adjusted sale price per suite versus value as determined by various effective gross income, capitalization rate and GIM factors.

The Board finds that the common sale comparables given by both the Complainant and the Respondent provide an accurate and reliable representation of value.

The Board finds the same sales comparables used by both the Complainant and the Respondent, have the same time adjusted sale price per suite of $83,000 and $76,944, respectively. The average time adjusted sale price per suite of these two same sales comparables is $79,972; whereas the average of the Complainant's sales comparables is $81,339 and the Respondent's is $80,326, both lower than the per suite assessed value of the subject property. The Board further notes that both of the common sales comparables have a per suite value lower than that of the per suite assessed value of the subject property.

The Board finds that the even though the Respondent's five equity comparables were located within the same market are they were in a different neighborhood from the subject property,

therefore the Board places greater weight on the sales comparables provided by both the Complainant and the Respondent.

In its consideration of the above reasons, the Board finds the subject property to be fairly valued at $80,000 per suite or $960,000.

DISSENTING OPINION AND REASONS

None noted.

Dated this 6th 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: K HANSEN MASONRY LTD