ASSESSMENT REVIEW BOARD

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NOTICE OF DECISION 0098 248/10

Altus Group Ltd.
17327 106A Avenue
Edmonton, AB T5S 1M7

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 hearings held on August 23 – 24, 2010 respecting a complaint for:

Roll Number 9994149	**Municipal Address** 100 Briarwynd Courts NW	**Legal Description** Plan 0126228 Block 12 Lot 1
Assessed Value $25,007,500	**Assessment Type** Annual New	**Assessment Notice for:** 2010

Before:

Patricia Mowbrey, Presiding Officer
James Wall, Board Member
Jasbeer Singh, Board Member

Board Officer:

J. Halicki

Persons Appearing: Complainant

From Altus Group Ltd., as agents:

Josh Weber, Director
John Maslen, Director

Others present:

Robert Brazzell, Sr. Director
Chris Buchanan, Sr. Consultant
Stephen Cook, Director

Persons Appearing: Respondent

For the City of Edmonton:

Tim Dmytruk, Assessor
Tanya Smith, Solicitor

Others present:

Bozena Andersen, Sr. Assessor
Abdi Abubakar, Assessor

PROCEDURAL MATTERS

The Complainant and the Respondent both requested that this file be treated in the same manner as the row house decisions and walk-up decisions from prior hearings (and consequently all material, evidence and questions from those hearings has been brought forward and combined in this hearing summary).

The parties indicated no objection to the composition of the Board and the Board Members expressed no bias with respect to this file.

During the hearings for high-rise properties held August 23-24, 2010, roll number #9994149 representing a walk-up/row house property was included on the agenda. The Complainant requested and Respondent agreed that the evidence and argument previously presented in CARB hearings conducted in August 2010 with regard to multi-residential row housing and walk-up apartments be considered by this Board in making its decision. For the record, roll numbers #1087352 and #1816156 respectively representing pilot files for row housing and walk-up properties had been selected. In addition, this Board admitted for roll number #9994149 exhibits: C2 (Appellant Disclosure and Witness Report), R1 (Assessment Brief), and R2 (Appendix Binder for the 2010 Multi-Residential CARB Hearings with Altus).

PRELIMINARY MATTERS

None.

BACKGROUND

The subject property is a multi-family residential development of 172 units built in 1972. It comprises a combination of 100 two-storey row houses and 72 low-rise (three storey) suites located in the Thorncliff neighbourhood of Edmonton.

ISSUES

1. Should the assessed value of the subject property be reduced to the lower of market value or equitable value?

2. Is the assessment of the subject property in excess of its market value for assessment purposes?

3. Is the assessment of the subject property fair and equitable considering the assessed value and assessment classification of comparable properties?

4. Is the classification of the subject property fair, equitable, and correct?

5. Should the GIM (gross income multiplier) be decreased to reflect the market conditions?

6. Has the correct valuation methodology been applied by the Respondent when determining assessed value?

LEGISLATION

***Municipal Government Act*, R.S.A. 2000, c. M-26;**

s. 293(1) In preparing an assessment, the assessor must, in a fair and equitable manner,

(a) apply the valuation and other standards set out in the regulations, and

(b) follow the procedures set out in the regulations.

(2) If there are no procedures set out in the regulations for preparing assessments, the assessor must take into consideration assessments of similar property in the same municipality in which the property that is being assessed is located.

(3) An assessor appointed by a municipality must, in accordance with the regulations, provide the Minister with information that the Minister requires about property in that municipality.

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.

***Matters Relating to Assessment and Taxation Regulation*AR 220/2004**

s. 2 An assessment of property based on market value

(a) must be prepared using mass appraisal,

(b) must be an estimate of the value of the fee simple estate in the property, and

(c) must reflect typical market conditions for properties similar to that property.

THEORETICAL CONSIDERATIONS

The Complainant referred to exhibit C1, page 2.

From Gross Income Multiplier(s) - *The Appraisal of Real Estate, Direct Capitalization*:

> To derive a gross income multiplier from market data, sales of properties that were rented at the time of sale or anticipated to be rented within a short time must be available. The ratio of the sale price to the annual gross income *at the time of sale* or projected over the first year or several years of ownership is the gross income multiplier.
>
> After the gross income multiplier is derived from comparable market data, it must be applied on the same basis it was derived. In other words, an income multiplier based on effective gross income can only be applied to the effective gross income of the subject property; an income multiplier based on potential gross income can only be applied to the potential gross income of the subject property. The timing of income must also be comparable.

The Respondent referred to exhibit R2, tab 3, pg. 159 onwards.

From the *Mass Appraisal of Real Property* (IAAO) Chapter 4 - *Mass Appraisal Model Calibration*

- Gross Income Multipliers and Overall Rates:

1. Stratification

> In the first, stratification, sales are grouped by factors that tend to affect the relationship between income and value. From a theoretical viewpoint, four major factors affect the relationship between current net income and market value: the discount rate or required rate of return on investment…the expected rate of change in net income; and the percentage of income attributable to land…expense ratios should also be considered because properties with lower expense ratios will usually command higher *GIMs*.
>
> Differences in these four theoretical factors vary primarily with the type of property, location, and condition. The first step, then, is to stratify sales based on these criteria…*GIMs*…can be computed and analyzed by strata…In practice, the median would be a good choice for the measure of central tendency because it is not overly influenced by extremes…The appraiser can, therefore, apply the results with reasonable confidence, despite the small sample size within strata.
>
> The success of this technique depends on the availability of adequate sales data. Older sales can be used in the analysis by adjusting both income and sales prices to the appraisal date as necessary. However, *neither* needs to be time-adjusted if income and sales data reflect the same time, which would be the case if income data were captured or updated at the time of sale.

2. Multiple Regression Analysis

The mass appraisal model calibration indicates a gross income multiplier or an overall rate model can be developed in two ways: stratification or multiple regression analysis (MRA). The City of Edmonton developed a model using the MRA technique.

> MRA…can be developed that use the same variables used in stratification: type of property, location, effective age or condition, size, and so forth….the models can be used to estimate income multipliers…for unsold properties, so that a unique figure is developed for each property based on its specific characteristics. Where properties are heterogeneous, this can produce a more supportable result than use of a single figure for an entire stratum of properties….In addition, MRA makes more efficient use of sales data, permitting the appraiser to test more variables in the model which are helpful when gross income factors (GIMs) are being developed.
>
> …*GIMs* have the practical advantage of not requiring expense data as does the overall rate of return, which are often difficult to collect and analyze.

From C1, pg. 54 onwards, the *Alberta Assessors' Association Multi-Residential Valuation Guide – September 1998:*

> The methods presented in this valuation guide are aimed at deriving values for different classes of multi-residential facilities.

<u>Approaches to value</u>

> Where the sales information is present and applicable, the market sales comparison may be considered. If sales information is not sufficient then other approaches to value should be considered.

Income Approach

> …Rental information is generally available for all types of apartment properties, however, and especially for smaller properties, Income and Expense Statements and other financial information may be more difficult to obtain. The rental information that is typically available for other less complex and smaller types of apartment buildings indicates that a gross income multiplier should generally be used.
> Gross Income Multiplier (GIM) formula
>
> Market Value = Gross Annual Income x Gross Income Multiplier
>
> A GIM is developed through the analysis of sales of similar properties and relates market value evidence to the gross income produced by those properties.
>
> As a general rule the higher the similarity and the more robust the sales data, the more accurate the result of a GIM valuation procedure.

Estimate Typical Gross Income

> Along with the actual gross income, it will be necessary for the assessor to determine typical gross income…for that class of multi-residential property. Typical rents are established through the analysis of all the information collected on the properties contained within a class.

Estimate Effective Gross Income

> Applying the long-term vacancy and collection loss allowance to the expected gross income produces the normalized effective gross income for the subject property. The long-term vacancy rate should be established by analysis of actual reported vacancy rates or rates as tabulated by various government bodies such as CMHC.

COMPLAINANT'S POSITION

1. The position of the Complainant is that the Gross Income Multipliers (GIMs) used by the Respondent in determining the 2010 property assessments for the subject property are significantly higher than indicated by the market. The Complainant argued that a single GIM should be used in the assessment of similarly classified properties, in this case two GIMs would apply as it consists of a combination row house and walk-up apartment project (R1, pgs. 33-34).

2. The Complainant presented three, walk-up apartment sales comparables dated: September 29, 2009, August 19, 2009 and May 27, 2009, stating that the three sales were close to the valuation date and, therefore, did not require time adjustments. From these three sales, the Complainant selected the median GIM of 8.89153 (Ref: #1087352, C1, pg. 7). The Complainant stated this GRM is appropriate for the low rise/walk-up section of the project. The Complainant then adjusted this GRM of 8.89153 to 11.11 to reflect a 25% expense ratio for row houses which is lower than the 40% expense ratio for low and high-rise properties (ibid., C1, pg. 10).

3. The Complainant also presented an equity analysis of 177 walk-up properties (Ref: #1816156, C1, pgs. 32-33) exhibiting a range of GIMs from 9.222 to 12.204. Based on equity, the Complainant requested a lower GIM of 9.222 to be applied to the low rise/walk-up section of the subject.

4. In addition, the Complainant presented an equity analysis of 7 properties exhibiting a range of GIMs from 10.31836 to 11.07027 (Ref: #1087352, C1, pg. 17). Based on equity, the Complainant requested a median GIM of 10.84912 (rounded to 10.85) be applied to the row house portion of the subject.

5. The Complainant requested a reduced assessment based on a "Direct Sales Approach" (Ref: #1087352, C1, pg. 15; Ref: #1816156, C1, pgs. 29-30). In arriving at the requested assessment for the low rise/walk-up section of the subject property of $6,762,849 (C2, pg. 9) the Complainant applied an expense ratio of 40% and adjustment factors. In arriving at the requested assessment for the row house section of the subject property of $15,959,695 (C2, pg. 9) the Complainant applied an expense ratio of 25% and adjustment factors. The resulting median-adjusted values per unit were then multiplied by the number of low rise/walk-up units and the number of row house units respectively.

6. To support the Complainant's position of a downward trend in GIMs, a *Network* graph reflecting trend lines from August 2007 to October 2009 was presented (Ref: #1816156, C1, pg. 9).

RESPONDENT'S POSITION

1. The Respondent stated that the subject's GIMs are correct as they were derived from the Mass Appraisal process through Multiple Regression Analysis. The Respondent is permitted by legislation to use either stratification or MRA modeling (R2, tab 3, pgs. 159-161). The City of Edmonton has chosen to use the MRA method. This model makes more efficient use of sales data, adjusts smoothly for differences between properties, and provides a unique multiplier for each property (R2, tab 3, pg. 135).

2. The Respondent indicated all assessments must pass provincial audit as set out in *Matters Relating to Assessment and Taxation Regulation 220/2004.*

3. The Respondent provided five sales comparables of walk-up style apartments that resulted in assessment GIMs ranging from 9.93 to 11.99 (R1, pg. 43). The assessment GIMs of the subject property at 10.66575 (low rise/walk-up) and 11.761647 (row house) respectively fall within this range (R1, pgs. 33-34).

4. With regard to the three sales comparables presented by the Complainant, the Respondent stated that the sales occurring in August and September 2009 could not be used since the Respondent is mandated by legislation to only use sales prior to valuation date.

5. The Respondent raised concerns about two of the Complainant's sales comparables. The chief concern about sale #1 is that it was a motivated sale. The Respondent included both *Network* and *Anderson Data Online* data sheets (R1, pgs. 63-64). Both data sheets showed the same specifics for the sale, but the *Anderson* report indicated that it was a motivated sale and had the additional benefit of favourable financing. It was noted that sale # 2 is considered to be in an inferior location due to the neighbourhood that it is located in (McDougall) and being located on 109 Street which is a major traffic artery (R1, pgs. 61-62).

6. The Respondent provided twenty-three equity comparables from market area 6 which were also all in average condition (Ref: 9994149 - R1, pg. 79). The assessment GIMs of these comparables ranged from 11.31934 to 12.60201 and the assessment GIM of the subject, at 11.76165, falls within this range.

DECISION

The decision of the Board is to confirm the individual assessments of $16,895,500 and $8,112,000 respectively and confirm the overall 2010 assessment for the subject property in the sum of $25,007,500.

REASONS FOR THE DECISION

1. The Board is aware the Respondent uses the multiple regression analysis (MRA) model for mass appraisal purposes within its municipal boundaries and it accepts this model for establishing value. In reaching this decision the Board carefully reviewed the theory and text references in both the Respondent's and Complainant's evidence and noted the excerpts were from *The Appraisal of Real Estate* (Appraisal Institute of Canada) (Ref: #1087352, C1, pgs. 2-3) and (R2, tab 1); *The Alberta Assessors' Association Multi-Residential Valuation Guide* (September 1998) (C1, pgs. 50-91); and, *Mass Appraisal of Real Property* (IAAO) (R2, tab. 3).

2. More specifically, the Board considered chapter 4 - *The Mass Appraisal Model Calibration* to understand the mass appraisal models available to a municipality. These are the stratification model and the MRA model. The stratification model is the selection of data in a narrow range of comparability to the subject property, a median value is selected, and the result is a single figure for an entire stratum of properties. The MRA makes use of the same data specifications and variables as the stratification, but these are analyzed within the MRA and the result is "… a unique figure is developed for each property based on its specific characteristics." (R2, tab 3, pg. 161).

3. Both the Complainant and the Respondent selected the Income Approach as the most appropriate method of valuation and specifically selected the GIM to measure comparability. The Board agreed with the parties. The GIM is developed through the analysis of sales of similar properties and relates market value to gross income produced by those properties. Typical rents and typical vacancies are established through the analysis of information collected in a class of properties and are applied to reach an effective gross income in the formula as follows: Typical gross income minus long-term vacancy rate equals effective gross income (EGI). The Respondent established an effective gross income using typical rent and typical vacancy factors which the Complainant accepted.

4. The Board placed less weight on the sales comparables provided by the Complainant. Two of the three sales were post-facto. The Board concurred with the Respondent's concerns regarding sales #1 and #2. In reference to sale #1, the data sheets produced by the *Network* and *Anderson Data Online* showed the same specifics for the sale but the *Anderson* report also indicated that it was a motivated sale and had the additional benefit of favourable financing, which included a vendor-take back mortgage of $500,000 with interest only until 2014. The Board questions whether enough due diligence was completed by the Complainant to have selected and relied on this sale as their basis for a requested reduction in assessment. In regard to sale #2, this comparable located in the McDougall neighbourhood and on 109 Street, which is also a major traffic artery, is in an inferior location compared to the subject property.

5. The Board was not persuaded by the Complainant's GIM analysis (Ref: #1087352, C1, pg. 7) as sale #1 was a motivated sale with preferential financing. Sale # 2, in a lower income district, is a four-storey, walk-up apartment building with an elevator. This left sale #3, a common sale utilized by both parties, however, it was a sale to a public housing corporation and the Board considers this might not be a typical buyer and may not represent true market value. In conclusion, the Board does not accept the median GIM of 8.89153 for the low rise/walk-up portion of the subject and neither can it accept that figure when adjusted to 11.11 to reflect row house properties, especially as both multipliers were derived from one questionable sale.

6. The Board considered the Complainant's Direct Sales Approach request analysis spreadsheet (Ref: #1087352, C1, pg. 15) and found it confusing. The Board was provided with no evidence to indicate where in appraisal theory or text there was support for this procedure of using Net Operating Income (NOI) ratios to determine value. The Board noted that the Complainant's evidence to support the validity of this theory comprised six pages from an incomplete appraisal by an unidentified author. This did not explain the validity nor the weight that was given to this theory in the appraisal report (Ref: #1087352, C1, pg. 112-117). It was also noted by the Board that one page from another incomplete appraisal report stated that this theory was "a check against the Income Approach value estimate conclusion" (Ref: #1087352, C1, pg. 118). However, the Board did not consider these appraisal reports as they were incomplete.

   The Board concluded that the Complainant's use of the three sales comparables (ibid., C1, pg. 7) to generate a GIM and to develop a ratio, represents a mixing of the income and the direct sales comparison approaches. This ratio is given no weight by the Board in establishing assessed value of the subject property.

7. The Board also noted all the theory and text quotes provided in the evidence by both parties indicate that a large number of similar sales are required to collect data for the Income Approach and GIM. The Board accepts the median value, in principle, but notes the requested GIM is taken from only a small sample of three sales which the Board considers to be inadequate. The Board, therefore, cannot accept this one sale as the basis for a reduction in the assessment.

8. The Board placed greater weight on the Respondent's 23 equity comparables located in the same market area and in the same condition as the subject (Ref: #9994149, R1, pg. 79). There were 21 two-storey and 2 three-storey buildings whose unit sizes ranged from 94 sq. m. to 160 sq. m. (Ref: #9994149, R1, pg. 79). These are larger than the average low rise/walk-up unit of the subject at 67 sq. metres (ibid., R1, pg. 34). The subject's GIM of 10.66575 is lower than any in the range of 11.31934 to 12.60201 which lends credence to the assessment.

9. The Board placed less weight on the Complainant's equity/GIM comparables for the row housing portion (Ref. #1087352, C1, pg. 17) since none of them were located in the same market area as the subject. The Board also noted the Complainant's equity comparables (Ref: #1816156, C1, pgs. 32-34) GIMs ranged from 9.22247 to 12.20430 for all market areas and 10.84267 to 11.99265 for market area 6 in which the subject is located. This supports the subject GIMs of row housing for 10.66575 and for walk-up of 11.761647 (Ref: #9994149, R1, pgs.33-34).

10. The Board finds the component 2010 assessments of the subject property at $16,895,500 for the row house portion and $8,112,000 for the low rise/walk-up portion are fair and equitable and confirms the overall 2010 assessment of $25,007,500.

DISSENTING DECISION(S)

None.

Dated this twenty-first day of September, 2010 A.D., at the City of Edmonton, in the Province of Alberta.

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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.

CC: Municipal Government Board
City of Edmonton, Assessment and Taxation Branch
City of Edmonton, Law Branch
Boardwalk REIT Properties Holdings (Alberta) Ltd.