ASSESSMENT REVIEW BOARD

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NOTICE OF DECISION NO. 0098 485/10

Canadian Valuation Group
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 October 19, 2010, respecting a complaint for:

Roll Number	**Municipal Address**	**Legal Description**
1307636	9720 149 Street NW	Plan: 5229AD Block: 65 Lot: 5/ 6/ 7
Assessed Value	**Assessment Type**	**Assessment Notice for**
$1,781,500	Annual - New	2010

Before:

Robert Mowbrey, Presiding Officer
John Braim, Board Member
Tom Eapen, Board Member

Board Officer: Annet N. Adetunji

Persons Appearing: Complainant

Tom Janzen, Canadian Valuation Group

Persons Appearing: Respondent

Bozena Anderson, Assessor, City of Edmonton
Cameron Ashmore, Barrister & Solicitor, City of Edmonton

PRELIMINARY MATTERS

1. Upon questioning by the Presiding Officer, the parties indicated no objection to the composition of the Board.

2. In addition, the Board advised the parties that the Board was not aware of any circumstances that would raise an apprehension of bias with respect to this file.

3. The Board had those individuals providing testimony either sworn or affirmed.

BACKGROUND

The subject property is a 19 suite walk-up apartment building located in West Jasper Place (Market area 5-A). It was built in 1972 with three stories and is in average condition. The total 2010 assessed value for the property is $1,781,500, which equates to $93,763 per suite.

ISSUE

Is the assessment of the subject property in excess of its market value?

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

At the commencement of the hearing, the Complainant informed the Board they were not persuing the argument pertaining to the equity issue or multiplier used by the Respondent put forth in the complaint reasons.

The position of the Complainant is that the capitalization rate (cap rate) is the best method of estimating the market value of the subject property for assessment purposes, as rental producing apartment properties are most commonly bought and sold on the overall capitalization approach in which a rate of return (cap rate) is applied to the net income after the operating expenses have been deducted (Exhibit C-1, pages 1-3).

The Complainant did not disagree with the Respondent's estimate of potential typical income and vacancy which had been applied to the subject building. The Complainant provided an income statement as at December 31, 2008. The Complainant provided a list of expenses, on both a price per suite and an expense percentage basis, that were taken from 9 low-rise apartment buildings all located in the same market area as the subject (Exhibit C-1, page 2). The expenses ranged from $2,903 to $3,468 per suite. The Complainant used sales number 7, 8, and 9 as they were closest to the valuation day to arrive at an average of $3,372 expenses per suite and a median of $3,428 expenses per suite. The Complainant used an expense figure of $3,400 per suite for the subject property. The Complainant deducted the total expenses from the effective gross income to arrive at the net operating income.

The Complainant also used the same three sales closest to the valuation date, (Exhibit C-1, page 2, sales 7, 8, and 9), to determine the cap rate. Using the average of the three sales, the average cap rate is 6.56% and the median is 6.45%. The Complainant applied the cap rate of 6.5% and $3,400 per suite expenses to the subject property's 2008 income statement and arrived at a net operating income of $94,720 (NOI – Exhibit C-1, page 2). This produced a value of $1,457,230 or $76,696 per suite.

The same chart also indicated the time adjusted sale price (TASP) per suite for each of the nine sales had an average of $85,681 and a median of $86,681 per suite (Exhibit C-1, page 2). The Complainant used the Respondent's time adjustment factors for 2010 multi-residential properties.

In support of their cap rate, the Complainant provided a third party report from Cushman & Wakefield (Exhibit C-1, page 19). The chart indicated the overall cap rate for multi-family residential sales in Edmonton was 6.7%.

The Complainant requested a 2010 assessment of $1,600,000 based on the capitalized value of the typical income.

POSITION OF THE RESPONDENT

The Respondent produced a binder for the low rise multi-residential properties under appeal on October 19, 2010. The binder has 15 tabs and is 169 pages. The Respondent reviewed the binder with the Board.

The Respondent advised the Board that the Gross Income Multiplier (GIM) is the correct method of estimating the value of the subject property and was the method used. A GIM is predicted by a model developed from the analysis of validated sales. The model is applied to the entire low rise inventory to produce an estimated typical GIM for each property as of July 1, 2009 (Exhibit R-1, page 7).

The Respondent advised the Board the valuation specifications and significant variables regarding the model. The Respondent advised the Board that the typical vacancy rate was 4% in market area 5-A (Exhibit R-1, pages 11/12).

The Respondent reviewed some sections of the Appraisal of Real Estate with the Board;

Tab 2, page 16, "Deriving capitalization rates from comparable sales is the preferred technique when sufficient data on sales of similar, competitive properties is available. Data on each property's sale price, income, expenses, financing terms, and market conditions at the time of sale is needed. In addition, the appraiser must make certain the net operating income of each comparable property is calculated and estimated in the same way that the net operating income of the subject property is estimated."

Tab 2 page 18, An overall capitalization rate provides compelling evidence of value when a series of conditions are met:

- Data must be drawn from properties that are physically similar to the property being appraised and from similar (preferably competing) markets. Where significant differences exist for a given comparable, its indications are afforded less weight or may be discarded entirely.
- Sale properties uses as sources for calculating overall capitalization rates should have current (data trends) and future market expectations, including income and expense patterns and likely value trends, that are comparable to those affecting the subject property.
- Income and expenses must be estimated on the same basis for the subject property and all comparable properties.
- The comparable property's price must reflect market terms, or an adjustment for cash equivalency must be possible.
- If adjustments are considered necessary for differences between a comparable and the subject property, they should be made separately from the process of calculating the overall capitalization rate and should be based on market evidence.

The Respondent stated the Complainant did not give any evidence or vacancy allowance in the disclosure to dispute the vacancy rate used by the City (Exhibit R-2, page 13). The income conversion factor, whether cap rate or GIM, should be applied to the same type of income for the comparables as the subject. When buying a property, a purchaser will consider the opportunity to increase rents when negotiating the purchase price. With the income increased to market, a purchaser can't pay the same multiple as when the rents are low as the potential to increase rents is no longer there.

One cannot simply take an average of cap rates from sales - a cap rate reflects specific characteristics of the sale. This includes:

- Income level (risk to the income stream) and
- Required rate of return to the investor (based on the income in place and the physical attributes of the property, such as age, condition and size of the overall investment).

The Respondent provided the Board with a chart detailing 8 sales of walk-up apartment buildings (Exhibit R-1, page 165) that had sold in 2009 (7 sales) and 2008 (1 sale). The first two sales are common to the Respondent and the Complainant. The time adjusted sale price per suite ranged from $85,788 to $125,300. The sales were similar to the subject property in terms of age, condition and number of stories. Sale number 3 appeared to be an outlier as it was over 25% above the next nearest sale. The median time adjusted sale price per suite is $97,108, which approximates the assessment of the subject property at $93,763.

When the Respondent's "typical" PGR and "typical" vacancy are applied to the 8 comparable sales (2nd chart), the comparable sales provide GIMs ranging from 9.24 to 13.24, which support the assessment of 10.65.

The second chart also provided the same sales using typical potential gross rents (PGR) and typical vacancies as opposed to the actual PGR and vacancy provided by the Network documents. In this chart, when "typical" rents and "typical" vacancy are used and after the deduction of expenses of $3,400 per suite, a median cap rate of 5.77% is produced. When applied to the net operating income (NOI) of $102,755, the indicated value is $1,780,500 which supports the assessment of $1,781,500.

In addition, the Respondent provided an equity comparable chart that indicated comparables of similar market area age and condition. The assessments per suite ranged from a low of $85,788 to a high of $125,300, which is well within the range for the subject property at $93,763 (Exhibit R-1, page 165).

The Respondent advised the Board that the Complainant's methodology was flawed and indicates a misleading representation of value.

DECISION

The decision of the Board is to confirm the 2010 assessment of $1,781,500 as fair and equitable.

REASONS FOR THE DECISION

1. The Board was persuaded by the Respondent's equity comparables chart (Exhibit R-1, page 166). The comparables were similar in terms of location, age and condition and the assessment of the subject property is well below the range.

2. The Board was persuaded by the Respondent's application of "typical" PGI, vacancy, expenses of $3,400 per suite and the median cap rate of 5.77% to produce a value of $1,780,500.

3. The GIM of the subject property at 10.65 falls within this range.

4. The Board accepts the procedure of selecting a median value and a sample of eight is an acceptable number of sales for the mass appraisal method stratification model.

5. The Board placed little weight on the Complainant's third party support information from Cushman and Wakefield as it covered the entire City of Edmonton and it was not broken down into areas. In addition, the report was not broken down into specific types of multi-family properties such as high rise, low rise and row houses.

6. The Board accepts that the cap rate approach is an accepted methodology for valuation. However, the Board was not persuaded by the Complainant's use of the cap rate approach (C-1, page 2). The Complainant had supplied nine comparable sales all close to the subject property to derive the expenses per suite and also a cap rate for the subject property. The Board noted sale #7 contained 144 suites and the Board did not consider this to be a meaningful comparable sale due to its relatively large size. The Board also noted two of the sales were used by both the Complainant and the Respondent.

7. In addition, the Board was not persuaded by the Complainant's analysis in respect of "typical" expenses. The Complainant had supplied 9 comparable sales (C-1, page 2), but the Board noted there was little evidence or documentation on the sales expenses to support the figure provided by the Network.

8. The Board concluded that the Complainant is using inconsistent methodology to value the subject property. The Complainant is applying GIMs and cap rates derived from the

Network's reported actual income to the Respondent's typical income. This inconsistency results in an unreliable estimate of market value. The Board believes that, under appraisal theory, typical income, vacancy and cap rates should be derived and applied in the same consistent manner.

9. The Board therefore concludes the Complainant did not provide sufficient or compelling evidence to alter the assessment.

DISSENTING OPINIONS AND REASONS

There was no dissenting opinion.

Dated this 16th day of November, 2010, at the City of Edmonton, in the Province of Alberta.

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Robert Mowbrey
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: Municipal Government Board
Derik Ventures Limited.