ASSESSMENT REVIEW BOARD

MAIN FLOOR CITY HALL
1 SIR WINSTON CHURCHILL SQUARE
EDMONTON AB T5J 2R7
(780) 496-5026 FAX (780) 496-8199

NOTICE OF DECISION NO. 0098 522/10

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 21, 2010, respecting a complaint for:

Roll Number	**Municipal Address**	**Legal Description**
8141319	10011 – 89 Avenue NW	Plan: 7995R Block: 116 Lot: 16 et al
Assessed Value	**Assessment Type**	**Assessment Notice for**
$2,066,500	Annual - Revised	2010

Before:

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

Board Officer: Annet N. Adetunji

Persons Appearing: Complainant

Peter Smith, Canadian Valuation Group

Persons Appearing: Respondent

Tim Dmytruk, Assessor, City of Edmonton

PRELIMINARY MATTERS

1. No objections were raised by either party with respect to the Board. Neither did the Board indicate any circumstances that would raise an apprehension of bias with respect to the file or the parties to it.

2. The Presiding Officer reminded the parties that they are still under oath.

3. At the commencement of the hearing, roll number 1383496 which had been selected as the pilot file, from which the relevant evidence and arguments would be carried forward, was referred to.

BACKGROUND

The subject property is a two and a half storey, 18 suite walk-up apartment building located in the Strathcona subdivision in south Edmonton. It was built in 1980 and contains 3 bachelor, 9 one bedroom, and 6 two bedroom suites. The total 2010 assessed value for the subject property is $2,066,500.

ISSUE(S)

1. Is the assessment of the subject property in excess of its market value?
2. Is the gross income multiplier (GIM) the best method of estimating the market value of the subject property?
3. Is the capitalization rate (cap rate) the best method?

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 pursuing the Equity or income multiplier issues as set forth in the complaint reasons.

The Complainant indicated the actual effective gross income of the subject property from the 2008 and 2009 income statements was $173,682 and $165,753 as compared to the Respondent’s estimated effective gross income of $170,568 (R-1, page 19).

The Complainant provided the Board with a graph of 5 sales (C-1, page 2) indicating they supported a value lower than the current assessment of the subject property. The 5 sales showed the expenses averaged $3,349 per suite, the capitalization rate (cap rate) averaged 5.89% and the average time adjusted sale price (TASP) was $94,612 per suite. The Complainant noted the actual expenses from the 2008 income statement equated to $3,877 per suite but considered expenses of $3,400 per suite to be appropriate for the subject property.

He also considered a cap rate of 6.00% to be appropriate for the subject property. In support of this cap rate, the Complainant supplied with Board with a third party report from Cushman and Wakefield that indicated the cap rate in 2009 for all multi-family sales was 6.7%.

The Complainant used the Respondent's effective gross income of $175,843 and vacancy rate of 3% and deducted the Complainant's expenses to leave a net operating income of $109,368. When capitalized at 6.00%, a value of $1,823,000 was indicated for the subject property.

The Complainant then applied the cap rate of 6% to the net income ($95,973) from the December 2009 income statement (C-1, page 13) and a value of $1,600,000 was indicated for the subject property.

The Complainant then used the sales analysis to indicate the average price per suite was $94,612, as noted above. The Complainant considered $95,000 per suite to be reasonable for the subject. Applying this rate to the subject property indicated a value of $1,710,000 for the property.

Based on the above analysis, the Respondent requested the assessment be reduced to $1,800,000.

POSITION OF THE RESPONDENT

The position of the Respondent is that the Gross Income Multiplier (GIM) is the correct method of estimating the value of the subject property and was the method used.

The Respondent provided a chart with 5 sales comparables of walk-up apartment buildings (Exhibit R-2) that had sold in 2009 (1 sale) and 2008 (4 sales). The subject property is assessed using a GIM of 12.11584 and the comparable sales provide GIMs ranging from 10.85 to 11.90 when "typical" gross income and "typical" vacancies were applied to the sales. These do not support the assessment GIM (bottom chart). From this same chart analysis, the Respondent produced a price per suite for each of the 5 sales and then time adjusted them to arrive at a range in values from $96,312 to $110,943 per suite, which does not support the assessment of the subject property at $115,333 per suite.

The Respondent provided the Board with an equity comparable chart (R-1, pages 44/45). The 80 equity comparables are similar in terms of age, building type, market area, condition, number of storeys, and vacancy. The GIMs range from 11.00 and 12.00+, which again do not support the subject GIM of 12.11584.

DECISION

The Board finds the 2010 assessment of $2,066,500 is fair and equitable.

REASONS FOR THE DECISION

1. The Board was not persuaded by the Respondent's equity comparables chart (R-1, pages 44/45). The comparables were similar in terms of location, building type, number of stories, condition, and vacancy. The GIM of the subject property at 12.11584 per suite was at or above the top end of the range as the precise numbers were not displayed on the evidence supplied to the Board. There was a preponderance (approximately 68) of GIMs between 11 and 12 displayed on the Respondent's evidence but very few (12) that could have been higher than 12. It therefore appears the average GIM was between 11 and 12 which does not support the GIM 12,11584 as applied to the 2010 assessment of the subject property.

2. The Board placed little weight on the Complainant's third party support for the 6.7% cap rate 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 the specific types of multi-family properties such as high rise, low rise and row houses. The Board did not receive any other information to justify this cap rate.

3. 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 five 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 #5 contained 100 suites and the Board did not consider this to be a meaningful comparable sale due to its relatively large size. The Board noted three of the sales were used by both the Complainant and the Respondent. Utilizing these three common sales only, the median cap rate of the three sales when using typical income and vacancy rates is 5.60%, which gives good support to the assessment.

4. The Board was not persuaded by the Complainant's analysis in respect of "typical" expenses. The Complainant had supplied 5 comparable sales (C-1, page 2) but the Board noted there was no evidence or documentation on the sales to support the figures provided.

5. 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.

6. The Board therefore concludes the Complainant did not provide sufficient or compelling evidence to alter the assessment, even though the Respondent was unable to support the assessment with evidence presented at the hearing.

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.

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.

cc: Municipal Government Board
Paul Paludet Professional
Paul Paludet