

Edmonton Composite Assessment Review Board

Citation: John C. Manning v The City of Edmonton, 2013 ECARB 01529

Assessment Roll Number: 2280865
Municipal Address: 13220 127 Street NW
Assessment Year: 2013
Assessment Type: Annual New

Between:

John C. Manning

Complainant

and

The City of Edmonton, Assessment and Taxation Branch

Respondent

DECISION OF
George Zaharia, Presiding Officer
Brian Carbol, Board Member
Brian Frost, Board Member

Procedural Matters

[1] When asked by the Presiding Officer, the parties did not object to the composition of the Board. In addition, the Board Members indicated no bias in the matter before them.

Preliminary Matters

[2] There were no preliminary matters.

Background

[3] The subject property is a one-storey retail building located at 13220 127 Street NW in the Wellington neighbourhood of west-central Edmonton. The building was built in 1971, is in average condition, and has a gross building area of 2,000 square feet. The building is situated on a lot 11,274 square feet in size.

[4] The subject property was valued on the income approach using a capitalization rate (cap rate) of 7.5% resulting in a 2013 assessment of \$371,500.

Issue

[5] Is the 7.5% cap rate applied to the subject property to calculate the 2013 assessment of the subject property too low?

Legislation

[6] **The *Municipal Government Act*, RSA 2000, c M-26, reads:**

s 1(1)(n) “market value” means the amount that a property, as defined in section 284(1)(r), might be expected to realize if it is sold on the open market by a willing seller to a willing buyer;

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

[7] In support of his position that the 2013 assessment of the subject property is excessive, the Complainant presented a 15-page brief (Exhibit C-1) and a 6 page rebuttal (Exhibit C-2). The Complainant considered the rental rates and allowances used by the City in determining the NOI reasonable, but argued that based on an analysis of the cap rates from the nine sales he put forward, a cap rate of 8.25% would be more appropriate in determining the value of the subject property.

[8] In support of this position, the Complainant provided nine comparable sales of properties similar to the subject. The comparables sold between October, 2009 and June, 2011, ranged in size from 8,830 to 88,820 square feet, and sold for cap rates that ranged from 7.45% to 8.88%. (Exhibit C-1, page 2)

[9] Considering the age, condition, size, and location of the subject property, the Complainant considered sale nos. 2, 3, 7, 8 and 9 as being the best indicators for an appropriate cap rate. Consequently, the Complainant selected a cap rate of 8.25% and when applied to the Respondent’s net operating income (NOI) of \$27,874, the assessment would be reduced to \$337,867. (Exhibit C-1, page 2)

[10] The Complainant submitted a rebuttal, taking exception to the cap rates calculated by the Respondent on page 10 of Exhibit R-1. Rather than using the time-adjusted sale price determined by the Respondent and dividing it into the City predicted NOI, he used the 2013 assessments of the four sales to divide into the City predicted NOI, resulting in a range of capitalization rates from 7.00% to 7.5%.

[11] In summation, the Complainant argued that if the NOI and the sale price at the time of the sale are used at some point after the sale, that the relationship is maintained. He also argued that his sales were better, using income at the time of the sale that an investor would know, rather than the hypothetical or “predicted NOI” used by the Respondent.

[12] In conclusion, the Complainant requested that the 2013 assessment of the subject property be reduced from \$371,500 to \$338,000.

Position of the Respondent

[13] The Respondent stated that the 2013 assessment of the subject was fair and equitable. To support his position, the Respondent presented a 59-page assessment brief (Exhibit R-1) that included law and legislation.

[14] The Respondent provided a "Capitalization Rate Comparables" based on five sales that occurred between June 30, 2010 and June 30, 2012. The sales resulted in stabilized cap rates that produced an average of 6.80% and a median of 6.86%, suggesting that the 7.5% cap rate applied to the subject property was not too low. In arriving at the predicted cap rate, the Respondent had predicted the NOI of the five properties by using typical rental rates and dividing the resulting NOIs by the time-adjusted sale prices of the five sales. (Exhibit R-1, page 10)

[15] The Respondent provided a review of the Complainant's nine sale comparables used in his cap rate study. One sale was a multiple parcel sale that was condominiumized after sale, a second was also a multiple parcel sale sold with two other accounts, and therefore no revised values were provided by the Respondent. The cap rates as provided by the Complainant were taken from the Network's sale reports that reflected the sales price and NOI at the time of sale. The sales occurred between October 26, 2009 and June 27, 2011. However, when the sale prices were time-adjusted, and the NOI was calculated using typical values as at the July 1, 2012 valuation date, the average fee simple cap rates were reduced in all but one case, ranging from 5.21 % to 9.71% (Exhibit R-1, page 16). The Respondent argued that this supports the 7.5% cap rate applied to the subject.

[16] The Respondent provided a CARB decision dated September 4th, 2013 wherein the Board opined that "*third party publications such as the Network are difficult to evaluate as it is unclear what parameters were used in establishing the cap rates. It is important that the methodology is consistent in the derivation and application of the factors used to calculate the cap rate. For example if the Network uses actual income figures, it should not be used in conjunction with typical data the City is mandated to use in the assessment process.*" (Exhibit R-1, page 25 paragraph 45)

[17] The Respondent provided a second CARB decision dated September 10th, 2013 addressing the shortcomings of third party information. The Respondent paraphrased a point made by the CARB that there were "*too many unknown variables*" when using information provided in third party reports. In the decision, the CARB wrote "*The Board recognizes that third-party sources are at the mercy of owners as to what information they choose to disclose, or even how the books are kept. As an example, where triple-net leases were implied, the operating expenses per square foot showed an unexpectedly wide variance. In absence of any evidence showing the sources of information input and the methodology used to arrive at the results produced, the Board put less weight on such evidence.*" (Exhibit R-1, page 32 paragraph 28)

[18] The Respondent submitted information addressing mass appraisal which is a methodology for valuing individual properties using typical values for groups of comparable properties. The appraisal process recommended by the Appraisal Institute of Canada is essentially the same for mass appraisals and single-property appraisals. To distinguish between mass appraisal and single-property appraisal, the International Association of Assessing Officers provides the following definition: "*...single property appraisal is the valuation of a particular*

property as of a given date: mass appraisal is the valuation of many properties as of a given date, using standard procedures and statistical testing." (Exhibit R-1, page 34)

[19] In summation, the Respondent argued that she had used mass appraisal, as mandated by regulation, applying typical parameters to determine the assessed value of the subject.

[20] In conclusion, the Respondent requested that the Board confirm the 2013 assessment of the subject property at \$371,500

Decision

[21] The decision of the Board is to confirm the 2013 assessment of the subject property at \$371,500.

Reasons for the Decision

[22] The Board placed less weight on the evidence and argument put forward by the Complainant for the following reasons:

- a) Although the Complainant provided nine sales comparables, the Complainant relied upon the cap rates provided by a third party source (The Network) derived from the NOI and sale price at the time of the sale, as much as 2 years and 9 months prior to the July 1, 2012 valuation date.
- b) Based on the information submitted by the Complainant, gleaned from third party sources, it would appear that the cap rate applied to the subject was too low. However, when the Respondent time-adjusted the sale prices to the July 1, 2012 valuation date and revised the NOI based on typical rental rates (that the Respondent is mandated to use by regulation), the resulting average cap rate was 7.39% (less than the City applied cap rate of 7.5%) and the median was 8.05% (less than the Complainant's requested 8.25%).
- c) Even though the Complainant challenged the City's predicted cap rates, suggesting instead that the 2013 assessed values of the comparables should be used rather than the time-adjusted sale price and then dividing this value into the NOI, the resulting cap rates of 7.0% and 7.5% support the cap rate of 7.5% applied by the City to the subject property.
- d) Although this Board is not bound by decisions rendered by other CARBs, this Board agrees with the positions taken by the other two CARBs in the September 2013 decisions. Specifically, this Board agrees with the statement made by the CARB in the September 4, 2013 decision where the CARB wrote: "*It is important that the methodology is consistent in the derivation and application of the factors used to calculate the cap rate. For example if the Network uses actual income figures, it should not be used in conjunction with typical data the City is mandated to use in the assessment process.*"

[23] The Board placed greater weight on the evidence and argument put forward by the Respondent for the following reasons:

- a) The cap rates derived by the Respondent in his "Capitalization Rate Comparables" study were based upon parameters as of the July 1, 2012 valuation date. The resulting average cap rate of 6.80% and median cap rate of 6.86% confirm the 7.5% cap rate applied by the

City in calculating the 2013 assessment of the subject property is not too low. As much as the Complainant argued that the incomes used by the Respondent in calculating the NOI as of the valuation date were “hypothetical”, he had stated in his evidentiary package that the *“income estimate utilized by the City are considered reasonable”*. As well, typically the Complainant utilizes the time-adjustment factors used by the City in time-adjusting sale prices to the valuation date. Therefore, this Board found no reason to question the validity of the cap rates as calculated in its study.

- b) The Board was persuaded that the Respondent prepared the assessment of the subject property in accordance with s. 2(a) MRAT that states: *“An assessment of property based on market value must be prepared using mass appraisal”*.

[24] The Board noted that both parties used different types of properties within the retail group such as neighbourhood shopping centres, office buildings, retail/office up, and retail plazas to support their respective positions. No argument was made by either party that this was incorrect.

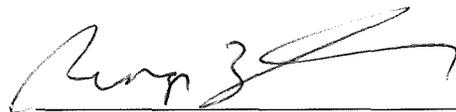
[25] The Board was persuaded that the 2013 assessment of the subject property at \$371,500 was fair and equitable

Dissenting Opinion

[26] There was no dissenting opinion.

Heard November 27, 2013

Dated this 9th day of December, 2013, at the City of Edmonton, Alberta



George Zaharia, Presiding Officer

Appearances:

Peter Smith
for the Complainant

Gail Rookes
for the Respondent

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, RSA 2000, c M-26.