Edmonton Composite Assessment Review Board

Citation: Altus Group v The City of Edmonton, 2013 ECARB 01825

Assessment Roll Number: 2742906
Municipal Address: 10350 122 STREET NW
Assessment Year: 2013
Assessment Type: Annual New

Between:

Altus Group

Complainant

and

The City of Edmonton, Assessment and Taxation Branch

Respondent

DECISION OF
Robert Mowbrey, Presiding Officer
Brian Hetherington, Board Member
Dale Doan, Board Member

Procedural Matters

[1] Upon questioning by the Presiding Officer, the parties indicated no objection to the composition of the Board. In addition, the Board indicated no bias on this file.

Preliminary Matters

[2] At the outset of the hearing, the Complainant advised the parties that the 2013 commercial assessment of $379,000 was not an issue.

Background

[3] The subject property is a 98,075 square foot, 14 story high- rise multi-residential apartment known as Solano House. In addition, the subject property has some commercial space within the complex. The subject property was built in 1972 and has 91 suites with an average of 1,065 square feet. The subject is located at 10350-122nd Street, within the Oliver neighborhood (zone 1C). The subject property is assessed under the income approach and the 2013 assessment is for $13,275,000.

Issue(s)

[4] What is the appropriate gross income multiplier (GIM) for the subject property?

Legislation

[5] 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

[6] The Complainant filed this complaint on the basis that the subject property's assessment of $13,275,000 exceeds the best estimate of market value. In support of this position, the Complainant presented a 55 page evidence package to which included maps, photographs and assessment details detailing the subject property (Exhibit C-1 pages 5-9).

[7] The Complainant offered the following explanation of the gross income multiplier methodology:

Potential Gross Income Multiplier =	Sales Price / Effective Gross Income

> "To derive a gross income multiplier from market data, sales of properties that were rented at the time of sale or were anticipated to be rented within a short time must be available. The ratio of the sale price to the annual gross income at time of sale or projected over the first year or several years of ownership is the GIM.
>
> After the GIM 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 also must be comparable. If sales are analyzed using next year's income expectation; the multiplier derived must be applied to next year's income expectation for the subject property.
>
> Gross income multipliers may be used to compare the income-producing characteristics of properties in the direct comparison approach and to convert gross income streams into property value in direct capitalization. The ratio of the sale price of a property to its annual gross income at the time of sale or projected over the first year or several years of ownership is the gross income multiplier". (Exhibit C-1, pages 13, 14)

[8] The Complainant advised the Board that the Altus Group surveyed all investment sales of multi-residential properties larger than 12 units that occurred from July 2009 to July 2012. Altus chose sales of 12+ units because, as per the Appraisal Institute, the lower limit of what can be considered a mid-range investment grade is 12 units. There is a smaller and specific base of investors capable of purchasing buildings of this size and they sell less frequently. Ideally, Altus would limit the choice of sales with units greater than 40 units as these are the most comparable sales to the subject property; however, there are very few transactions of this size within the market area. This is supported by existing jurisprudence and appraisal methodology (Exhibit C-1 page 15).

[9] The Complainant presented 14 comparable sales to the Board. The sales comparables ranged in year of construction from 1958 to 1982, the number of suites ranged from 12 to 99 and the vacancy rate was 3% and 4% for zone 3 and zone 1C. The time adjusted gross multiplier ranged from 7.19 to 11.26, with an average of 10.98 for zone 3 and an average of 10.45 for zone 1C.

[10] The Complainant presented a 2012 market proforma to the Board, with a 3% vacancy, and a GIM of 10.63 to give a requested total 2013 assessment of the subject property of $12,610,000 (Exhibit C-1 page 17).

[11] The Complainant presented six equity comparables, including the subject, to the Board. All the comparable properties are owned by Boardwalk. The equity comparables ranged from 1966 to 1974 and were all located in zone 1C. The number of suites ranged from 66 to 165 and all units but one were assessed 11.21 GIM for the 2013 assessment year.

[12] Four of the 6 properties were classed as A properties by Boardwalk and two of the properties, including the subject property, were classed as B properties by Boardwalk. The two class B properties were given a 5.50% cap rate and the four class A properties were assigned a 5.25% cap rate. The Complainant referred the Board to an e-mail that outlined Boardwalk's property classification as being A, B or C and the appropriate cap rate of 5.25 to 5.75% (Exhibit C-1 pages 40-43).

[13] The Complainant advised the Board that due to the strong correlation between market area 1C and 3, the GIM of the subject property should be lowered from 11.21 (Exhibit C-1 page 19).

[14] The Complainant commented on the Alberta Assessors' Association Valuation Guide and advised the Board specifically on determining base market rents as of the valuation date:

> "To determine the current market rent for each tenant, the following guidelines are provided (in the order of importance);
>
> 1. For most tenants the best source of market rent information is the rent roll. Using these rent rolls, the best evidence of "market" rents are (in order of descending importance):
>
>   - Actual leases signed on or around the valuation date.
>   - Actual leases within the first three years of their term as of the valuation date.
>   - Current rents for similar types of stores in the same shopping centres.
>   - Older leases with active overage rent or step-up clauses.

2. As a secondary source of rent information, and as a check on the rents derived from the actual rent rolls, the rental rates can be compared to the rents established for similar tenants in other similar properties.

3. If comparable information is not available, it may be necessary to analyze the existing lease and interview the owner and tenant(s) to determine what the current rent on the space should be". (Exhibit C-1 page 47)

[15] During questioning of the Complainant, the Complainant advised the Board of the following:

a. The sales comparables of the Complainant were in two different market areas.

b. The time-adjusted factors utilized by the Complainant came from the City.

c. The sales details came from the network documents.

d. The City's GIM is different than the Networks, as the Network utilizes actual income and the City utilizes typical income.

e. The Complainant did not contact the parties about the sale nor verified any income. The Complainant was not aware if the Network contacted the parties or not.

f. The rating system was instituted by Boardwalk on all the Boardwalk properties.

g. Total rental income of $1,270,692 gives off a GIM of 10.63, but does not include parking income.

h. The Complainant advised the Board that the first 6 sales from the Complainant's sale comparables could be ignored as they were in a different market area than the subject property.

i. The capitalization rates on the Boardwalk properties were applied by Boardwalk and have no relationship to the City's cap rate.

[16] The Complainant requested the Board to amend the 2013 assessment of $13,275,000 to $12,853,500. This amounts to a reduction of 3.2% in the 2013 assessment.

Position of the Respondent

[17] The Respondent defended the 2013 assessment by providing the Board with a 74 page evidence package marked as Exhibit R-1, plus a 6 page ECARB decision marked as Exhibit R-2.

[18] The Respondent advised the Board about the three mass appraisal approaches and specifically the income approach for the multi-residential inventory, stating that:

> "The sales comparison approach was not employed to derive market estimates for any properties considered within the multi-residential inventory.
>
> Low-rise apartments were valued based on the income approach using typical gross income (RGI), typical vacancy, and typical gross income multiplier (GIM). The income

approach is the approach of choice as it best reflects the typical actions of buyers and sellers when purchasing income-producing properties. The use of the GIM to value multi-residential housing is widely used in the assessment field.

The multi-residential income model distinguishes different values for the various types of multi-residential properties by making adjustments for building type and significant variables attributable to that building type.

Two models are created to work in tandem. One calculates the market typical potential gross income using the rental information, and the second calculates the market typical gross income multiplier using the sale information and the PGI model. These models follow legislated guidelines and appraisal theory

MVA = (PGI less VAC) x GIM

Stabilized vacancy is the percentage allowance for vacant space in the subject property based on a study of unoccupied units of comparable properties in the area for a year. Stabilized or typical vacancy assumes current market conditions and typical management.

A gross income multiplier (GIM) is defined as the factor by which income is multiplied in order to obtain an estimate of value. Simply stated, the GIM expresses the relationship between property value and potential gross income. They are derived from market analysis of sales.

Theoretically, a GIM is a product of the factors that determine how much an investor will pay now for future income. An investor will consider the degree of risk involved; the estimated potential income stream, the expected time the investment will be profitable; and the percentage attributable to operating expenses. These factors are directly related to the type, location, condition, and other attributes of the property.

All sales within the City of Edmonton were reviewed and analyzed as of the sale date. Sales reflect the condition of a property as of the sale date and thus may not always be equivalent to their assessed value.

The property attributes considered in valuation that are common to low-rise properties include the following: average suite size, balcony, building type, commercial component, condition, effective year built, elevator, gross building area, laundry facility, market area, parking, river view suites, stories, suite mix and suite total". (Exhibit R-1, pages 6-9)

[19] The Respondent disclosure included the following note:

"One must be cautious when relying on outside sources. The Network has a disclaimer on their reports stating, "*All opinions, estimates, data and statistics furnished by other sources is believed to be reliable; however, we cannot guarantee its validity or accuracy*".

The manner in which the rates are derived is how they need to be applied to the subject property. One cannot simply pick and choose various components of rates from varying sources to derive reliable values. The City of Edmonton does due diligence in analyzing all components of value and applies the results in a consistent manner. "(Exhibit R-1, page 14)

[20] The Respondent presented maps, photographs and assessment details, detailing the subject property [Exhibit R-1 pages 15-21].

[21] The Respondent presented five comparable sales to the Board. The comparables were all in average condition, vacancy of 3% and all located in market area 1C. The effective year built ranged from 1966 to 2002 and the number of suites ranged from 22 to 306. The GIM of the sales comparables ranged from 11.25 to 14.34 with the median being 11.81. The assessed GIM of the subject property is 11.21[Exhibit R-1 page 25].

[22] The Respondent presented 21 equity comparables, including the subject property, to the Board. All high-rises were in market area 1C and all were assessed with a 3% vacancy. The median GIM of the equity comparables was 11.21 and the assessment per suite ranged from $124,225 to $167,786 [Exhibit R-1 page 32].

[23] The Respondent presented a Boardwalk self-valuation to the Board based on the operating results from Boardwalk. In addition, the Respondent utilized the cap rate assigned to the subject property by Boardwalk. The resulting figure of $13,616,423 supports the 2013 assessment of $13,275,000 [Exhibit R-1 page 36].

[24] During argument and summation, the Respondent presented the Board with an ECARB decision marked as Exhibit R-2, which supports the Respondent's methodology concerning the use of the GIM. In addition, the ECARB decision also stated the problems created by the Complainant in utilizing the Complainant's use of a GIM.

[25] During argument and summation, the Respondent advised the Board that the Complainant chose two different market areas and both third party and CMHC separate these market areas. In addition, the Respondent stated the Complainant had not done further investigation into the sale comparables.

[26] The Respondent advised the Board that the first six sale comparables of the Complainant were in a different market area and in addition, two were NAL, one was purchased for a condo conversion and one was purchased as part of a portfolio sale.

[27] The Respondent advised the Board that with the eight remaining sale comparables in market area 1C, sale #7 was under a condo title and part of a partial sale interest and possible dated negotiations. Sale #9 was under a condo title and sale #11 was purchased for a condo conversion and was completely renovated. Income was not a factor in consideration of this sale. Sale #12 was a multi-parcel sale and involved eight buildings located across Edmonton. Sale #13 had the incorrect number of suites. Sale #14 was in fair condition at the time of sale, and 10 units were deemed uninhabitable by Capital Health.

[28] The Respondent stated the Respondent's test detailing the actual income and the Boardwalk cap rate supports the 2013 assessment.

[29] The Respondent requested the Board to confirm the 2013 assessment of $13,275,000.

Decision

[30] The decision of the Board is to confirm the 2013 assessment of $13,275,000.

Reasons for the Decision

[31] The Board was not persuaded by the Complainant's sale comparables. The Complainant acknowledged that the first six sales in market area #3 should probably be ignored. In addition, the remaining eight sale comparables had a number of issues such as: condo units; purchased for condo conversion; portfolio sale; incorrect number of suites; and sale comparable in fair condition. As such, these comparable properties were not comparable to the subject. This left basically 2 sale comparables left to compare with the subject property and two sale comparables is not sufficient to alter an assessment.

[32] The Board was not persuaded by the Respondent's sale comparables. Four of the five sale comparables were low rise as compared to the subject being a high rise apartment. In addition, the only high rise sale comparable that has underground parking, like the subject, is 30 years newer than the subject. In the Board's view, these sales comparables were not valid for comparison purposes.

[33] The Board was persuaded by the test performed by the Respondent on the Complainant's actual operating income statement. By utilizing the cap rate assigned by Boardwalk, the Respondent was able to show the market value of $13,616,500 supported the 2013 assessment of $13,275,000.

[34] The Respondent advised the Board that all sale comparables were vetted and verified by the City's valuation group, whereas the Complainant stated that little further investigation had been completed on the sale comparables he had presented. The Board concluded that the Respondent's analysis is more reliable than the third party reports utilized by the Complainant.

[35] The Board was somewhat persuaded by the Respondent's equity analysis. The analysis included high-rises in market area 1C and notes the subject property is treated fairly and equitably in relation to other high rises in market area 1C.

[36] The Board notes that the amended request of $12,853,500 is a 3.2% reduction in the 2013 assessment of $13,275,000. The Board would be most reluctant to alter an assessment, or change an assessment, if the evidence indicates a change to the assessment within 5%; which the evidence does not.

[37] The Board notes that sales comparables of the Complainant are not time adjusted; but the GIM's of the sales comparables are time adjusted. The Board questions the validity and accuracy of this assessment methodology by the Complainant. The data is derived from third party sources and the sources are not always identified. There is not always income verification or the verification of the expenses.

[38] The Board sees no basis on the evidence presented by the Complainant for reducing the GIM for the subject property. The Complainant did not give the Board sufficient nor compelling evidence for the Board to form an opinion as to the incorrectness of the 2013 assessment.

Dissenting Opinion

[39] There was no dissenting opinion.

Heard commencing October 28, 2013.

Dated this 21st day of November, 2013, at the City of Edmonton, Alberta.

Robert Mowbrey, Presiding Officer

Appearances:

Brett Flesher
for the Complainant

Amy Murphy
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.