Edmonton Composite Assessment Review Board

Citation: Altus Group v The City of Edmonton, 2013 ECARB 01828

Assessment Roll Number:	3409224
Municipal Address:	10250 115 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 members indicated no bias on this file.

Preliminary Matters

[2] There were no preliminary matters.

Background

[3] The subject property is a 3.5 story walk up apartment, known as Christopher Apartments, and located at 10250-115th Street in the Oliver neighborhood. The subject has an effective year built of 1973, and has 45 suites with an average suite size of 926 square feet. The subject property is assessed under the income approach and the 2013 assessment is for $5,263,000.

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.

<u>Position of the Complainant</u>

[6] The Complainant filed this complaint on the basis that the subject property's assessment of $5,263,000 exceeds the best estimate of market value. In support of this position, the Complainant presented a 51 page evidence package which included the rent roll, maps, photographs and assessment details detailing the subject property, to the Board (Exhibit C-1).

[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 10, 11)

[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 12).

[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 7.76 to a corrected 13.61. The Complainant initialed and corrected sale #14. This gave an average of 10.98 for zone 3 and an average GM of 10.45 for zone 1C (Exhibit C-1 page 15).

[10] The Complainant presented a 2012 market proforma to the Board, with a 3% vacancy, and a GIM of 10.71 to give a requested total 2013 assessment of the subject property of $5,028,500 (Exhibit C-1 page 14).

[11] The Complainant presented 14 equity comparables to the Board. The equity comparables ranged from 1964 to 1981 and were all located in zone 1C and zone 3. The number of suites ranged from 45 to 179 and the units were assessed 11.21 GIM, 11.31GIM and 12.41GIM for zone 1C and 11.96 GIM for zone 3 for the 2013 assessment year.

[12] Nine of the 14 properties were classed as A properties by Boardwalk and 4 of the properties were classed as B properties by Boardwalk. The subject property was classed as a C property by Boardwalk. The 9 class A properties were given a 5.25% cap rate, the 4 class B properties were given a 5.50% cap rate and the subject property being class C was assigned a 5.75% cap rate. A class C property is rated as poor condition. 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 36-39).

[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 16).

[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 43)

[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 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 effective gross income of $484,042 produces a GIM of 10.71, 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 $5,263,000 to $5,028,500. This amounts to a reduction of 4.5% in the 2013 assessment.

Position of the Respondent

[17] The Respondent defended the 2013 assessment by providing the Board with an 88 page evidence package marked as Exhibit R-1, plus an 85 page law and assessment brief marked as Exhibit R-2. In addition, the Respondent provided the Board with a 17 page ECARB decisions marked as Exhibit R-3.

[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 15-34).

[21] The Respondent presented five sale comparables to the Board. The sale comparables were similar to the subject in that all comparables were in market area 1C, in average condition, all assessed with a 3% vacancy and all were low rise apartments. The effective year built ranged from 1966 to 1973 and the GIM's ranged from 11.16 to 12.16, with the median GIM being 11.59. The assessed GIM of the subject property is 11.21 (Exhibit R-1 page 39).

[22] The Respondent presented 16 equity comparables to the Board. The equity chart presented included all walk-up apartments in market area 1C.The median GIM of the equity comparables was 11.21 and the assessment per suite ranged from $99,777 to $122,058. The Respondent advised the Board that the subject's assessment of $116,955 fits well within the range (Exhibit R-1 page 45).

[23] The Respondent presented the Board with a Boardwalk self valuation of the subject property. The Respondent utilized the actual effective gross rent plus imputed parking revenue of $10,010 to arrive at a total effective gross income. The Respondent utilized Boardwalk's net operating income and the cap rate assigned to the subject by Boardwalk. Boardwalk's self valuation produced a market value of $6,742,620, which is higher than the 2013 assessment of $5,263,000 (Exhibit R-1 page 46).

[24] The Respondent presented the Board with a brief that outlined errors inherent in mixing and matching City GIM's/Incomes with third party GIM's/Incomes. The Respondent made a number of comments regarding the brief and some of the more salient points are as follows:

a. It is common in assessment complaints that a Complainant will argue that the gross income multiplier (GIM) of an assessed property is correct, but that the predicted rental value of the property is incorrect. Conversely, they may argue that the rental rate is correct, but the GIM is incorrect.

b. After the gross income multiplier is derived from comparable market data, it must be applied on the same basis it was derived...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.

c. Third party sources-Deriving GIM's from sales

i. There is no way to question a third party source about the income information that went into the document.

ii. There is no way to know whether the income listed is actual or estimated.

iii. If estimated, there is no way to know how the estimate was arrived.

iv. There is no way to know the source of the income information.

v. There is no way to know whether the vacancy rate is actual or typical.

d. Despite the Network saying that the rents are at market, there is a significant discrepancy between what the Network apparently considers market and the study that the City of Edmonton does to determine market. There is no way to question Anderson or the Network on the source of their data. The City of Edmonton clearly states that these are typical numbers, and not based on actual.

[25] The Respondent advised the Board that the first six sale comparables of the City were in a different market area and in addition, 2 were NAL, one was purchased for a condo conversion and one was purchased as part of a portfolio sale (Exhibit R-1 page 51).

[26] 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 8 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 (Exhibit R-1 page 51).

[27] During argument and summation, the Respondent presented the Board with two ECARB decisions marked as Exhibit R-3, which supports the Respondent's methodology concerning the use of the GIM. In addition, the ECARB decisions also stated the problems created by the Complainant in utilizing the Complainant's use of a GIM (Exhibit R-3).

[28] Also, 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.

[29] The Respondent stated their test detailing the actual income, imputed parking and the Boardwalk assigned cap rate support the 2013 assessment.

[30] The Respondent brought the Board's attention to *Astoria Manor Ltd. v. City of Edmonton,* MBG No. DL 026/09, which states:

> "It is agreed in fact that the Network income is the actual income reported on the sale date. The Network income also includes other income from parking and laundry and tends to be greater than the typical income used by the Respondent in the preparation of assessment.
>
> The MGB agrees with the Respondent that the Appellant is using inconsistent methodology to value the subject property. The Appellant is applying the GIM's and cap rates derived from the Network's reported actual income to the Respondent's municipality's typical income. This inconsistency results in an unreliable estimate of market value. In contrast, the Respondent used consistent concepts of typical income both in the derivation and application of its multiplier. The Respondent's consistent methodology makes its proposed assessment the better estimate of market value". (Exhibit R-1 page 87)

[31] In conclusion, the Respondent requested the Board to confirm the 2013 assessment of $5,263,000.

<u>Decision</u>

[32] The decision of the Board is to confirm the 2013 assessment of $5,263,000.

<u>Reasons for the Decision</u>

[33] 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 two sale comparables left to compare with the subject property and two sale comparables is not sufficient to alter an assessment.

[34] 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 $6,742,620 supported the 2013 assessment of $5,263,000.

[35] 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.

[36] The Board was somewhat persuaded by the Respondent's equity analysis. The analysis included low-rises in market area 1C and notes the subject property is treated fairly and equitably in relation to other low rises in market area 1C. The assessment per suite of $116,955 appears to fit well within the assessment equity comparables range.

[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 notes that the amended request of $5,028,500 is a 4.5% reduction in the 2013 assessment of $5,263,000. 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.

[39] 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

[40] There was no dissenting opinion.

Heard commencing October 29, 2013.
Dated this 21st day of November, 2013, at the City of Edmonton, Alberta.

Robert Mowbrey, Presiding Officer

Appearances:
Brett Flesher
for the Complainant

Tanya Smith, Legal Counsel
Devon Chew, Assessor
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.