Edmonton Composite Assessment Review Board

Citation: Altus Group v The City of Edmonton, 2013 ECARB 01841

Assessment Roll Number:	9993373
Municipal Address:	10129 163 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
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 50,655 square foot 4 story low rise apartment known as Westmoreland Apartments, located at 10129-163rd Street in the Britannia Youngstown neighborhood. The low rise apartment has 56 suites with an average of 904 square feet. The subject property is assessed under the income approach and the 2013 assessment is for $6,090,000.

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 $6,090,000 exceeds the best estimate of market value. In support of this position, the Complainant presented a 47 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 11 comparable sales to the Board. The sales comparables ranged in year of construction from 1964 to 2003, the number of suites ranged from 12 to 43 and the Network vacancy rate was 4% for all the comparables in zone 5. The time-adjusted GIM ranged from 7.66 to 13.05. The Complainant stated that comparables 4, 5, 6, and 11 were the best comparables. These 4 comparables had time-adjusted GIM of 10.10 (Exhibit C-1, page 15).

[10] The Complainant presented a 2012 market proforma to the Board, with a 4% vacancy, and an amended GIM of 10.10 to give a revised requested total assessment of the subject property of $5,925,000 (Exhibit C-1, page 14).

[11] The Complainant presented 18 equity comparables to the Board. The equity comparables ranged from 1972 to 1982 for effective year built and 16 equity comparables including the subject were located in CMHC zone 6, one was located in zone 4 and the subject property was located in zone 5. The 2013 GIM's ranged from 9.58 to 10.58.

[12] Nine of the equity comparables were classed as C and seven equity comparables were classed as A. Boardwalk assigned the classification to their properties. 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%.

[13] The Complainant stated that due to the strong correlation in value between market area 5 and 6 the GIM of the subject property should be lowered from 10.38.

[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 39)

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

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

b. The sales details came from the network documents.

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

d. Nine properties are older than the subject property.

e. The median GIM of 10.47 is higher than the subject's GIM of 10.38.

f. Sale #11 with a GIM of 10.31 is the best comparable and quite close to the subject's GIM of 10.38.

g. The difference between the requested assessment by the Complainant and the actual assessment is 2.7%.

h. The subject property's total revenue at $693,434 is higher than what the City applies as typical income.

i. The Complainant did not contact any parties regarding sales or verification of any income. The Complainant was not aware if the Network contacted the parties or not.

[16] The Complainant requested the Board to amend the 2013 assessment of $6,090,000 to $5,925,500 based on a 10.10 GIM.

Position of the Respondent

[17] The Respondent defended the 2013 assessment by providing the Board with a 63 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 6 page ECARB decision 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 15-27).

[21] The Respondent presented six sale comparables to the Board. The sales comparables were similar to the subject in terms of condition, location and suite size. The GIM's of the sale comparables ranged from 9.69 to 11.01. The Respondent noted that sale comparable #4 was the most comparable to the subject property and had a GIM of 10.42 compared to the subject property's GIM of 10.38 (Exhibit R-1 page 32).

[22] The Respondent presented five equity comparables to the Board. The equity chart presented included all low rise walk-up apartments in market area 05. All of the equity comparables were assessed a GIM of 10.38 including the subject property. The assessment per suite ranged from $103,527 to $108,750. The Respondent advised the Board that the subject's assessment of $108,750 per suite fits within the range (Exhibit R-1 page 39).

[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 $3,492 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 $7,329,080, which is higher than the 2013 assessment of $6,090,000 (Exhibit R-1 page 40-42).

[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 concerning the Complainant's sale comparables that:

a. The vendor for sale #6 at 15628 100th Avenue was under financial stress and was motivated to sell. Third party sources also stated the issue re: a motivated vendor.

b. The #10 sale at 10015 164th Street was rated as in fair condition. It should be noted that Capital Health labeled the majority of suites to be uninhabitable.

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

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

[28] 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 62)

[29] The Respondent brought the Board's attention to the issue of the 5% range. Both the ARB and the MGB have further ruled on numerous occasions that it would not alter an assessment, if the requested change to the assessment, or if the evidence indicates a change to the assessment within 5% (Exhibit R-1 page 55).

[30] In conclusion, the Respondent requested the Board to confirm the 2013 assessment of $6,090,000.

<u>Decision</u>

[31] The decision of the Board is to confirm the 2013 assessment of $6,090,000.

<u>Reasons for the Decision</u>

[32] 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 $6,090,000.

[33] 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.

[34] The Board was somewhat persuaded by the Respondent's equity analysis. The analysis included low-rises is treated fairly and equitably in relation to other low rises. The assessment per suite of $108,750 appears to fit within the assessment equity comparables range.

[35] 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.

[36] The Board notes that the amended request of $5,925,500 is a 2.7% reduction in the 2013 assessment of $6,090,000. 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 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

[38] There was no dissenting opinion.

Heard commencing October 31, 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.