Edmonton Composite Assessment Review Board

Citation: CVG v The City of Edmonton, 2013 ECARB 01894

Assessment Roll Number:	Municipal Address:
2917854	11429 - 132 STREET NW
2918209	11505 - 132 STREET NW

Assessment Year: 2013
Assessment Type: Annual New

Between:

CVG

Complainant

and

The City of Edmonton, Assessment and Taxation Branch

Respondent

DECISION OF
Larry Loven, Presiding Officer
John Braim, Board Member
Pam Gill, Board Member

Procedural Matters

[1] The parties indicated they had no objection to the composition of the Board. In addition, the Board members indicated they had no bias on this file.

[2] At the outset of the hearing, as the subject properties formed Phase II of a development, it was requested that argument and evidence submitted for roll number 2917854 be heard together with roll number 2918209. It was further agreed to by the parties that the decision for the roll numbers given above be written as one decision.

Preliminary Matters

[3] None noted

Background

[4] The subject properties comprise Phase II of a large apartment development known as *Baywood Park* and is located adjoining the east side of Groat Road between 114 Avenue and 117 Avenue in the Inglewood neighbourhood of Market Area 4. Phase I of the development was constructed in 1954/55 and comprises seven roll numbers with a total of 600 suites located in 50 buildings. Each building has 6 one-bedroom suites and 6 two-bedroom suites. Phase II was constructed in 1977 and comprises the two subject roll numbers with 25 one-bedroom suites and 150 two-bedroom suites for a total of 175 suites located in 10 buildings.

[5] The subject properties are located in Phase II and have been assessed by the income approach to value and in particular by the gross income multiplier (GIM) method. The GIM method estimates the effective gross income (EGI) to which is applied a multiplier to produce the assessment. The 2013 assessments and the prices/suite are as follows:

Roll Number	Assessment	Price/suite
2917854	$12,211,500	$116,309
2918209	$8,141,500	$116,307

Issue(s)

[6] Are the assessments of the subject properties correct?

Legislation

[7] **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

[8] The Complainant filed these complaints on the basis that the assessments of the subject properties were much higher than their market values. In particular, a red flag was initially raised when the actual gross incomes were noted to be higher than the potential gross incomes as calculated by the Respondent. The Complainant contended that the GIM used by the Respondent was flawed as it was based on a formula that did not necessarily reflect the effective age of older buildings which were all assessed at the same GIM of 10.58. As such, the PGI utilized by the Respondent for the subject property was higher than it should be as a result of using lower EGIs when analyzing the comparable sales.

[9] In support of the contention that the assessments were too high the Complainant provided a chart of sales of apartment buildings (C-1, p 2). The chart comprised ten sales that transacted in 2011/12, all of which were of similar age to the subject property. The sale prices ranged from $85,000 per suite to $108,000 per suite and the average PGIs ranged from $807 per suite per month to $952 per suite per month with an average of $856 per suite per month and a median of

$842 per suite per month. The Complainant provided an additional column that gave an adjusted sale price per suite that was calculated by taking the assessed PGI of the subject and dividing it by the actual PGI of the comparable property at the time of sale to produce a ratio that was then applied to the original sale price per suite of the comparable. The Complainant contended that the resulting price per suite accounted for all the differences – in particular, location, age, condition and suite mix – between the sales comparables and the subject properties. The adjusted prices ranged from $92,324 per suite to $108,709 per suite, with an average of $100,728 per suite and a median of $100,633 per suite.

[10] The Complainant placed most weight on the six sales located in the same market area as the subject properties and concluded a value of $100,000 per suite was most appropriate for the subject properties. This would produce assessed values for the subject properties as follows:

Roll Number	$/Suite	Value
2917854	$100,000	$10,500,000
2918209	$100,000	$7,000,000

[11] The Complainant, again placing most weight on the six sales in Market Area 4, concluded a GIM of 9.5 was appropriate for the subject properties. This would produce assessed values for the subject properties as follows:

Roll Number	GIM	Value
2917854	9.5	$10,566,451
2918209	9.5	$7,044,298

[12] In the final analysis, the Complainant concluded that $100,000 per suite was considered appropriate and requested the Board to reduce the assessments as follows:

Roll Number	Original Assessment	Requested Assessment
2917854	$12,212,500	$10,550,000
2918209	$8,141,500	$7,040,000

Position of the Respondent

[13] The Respondent provided an assessment brief with photographs that showed some routine replacement and maintenance had been carried out to at least one vacant suite and what appeared to be a show suite. A copy of the request for information completed by the owner was also provided. In it, the owner indicated that the total PGI for 2012 for the development known as *Baywood Park* was $6,509,347. According to the Respondent's calculations, a copy of which was provided, the total PGI for the development, based on typical market rental rates, was $5,891,761.

[14] The Respondent contended that the GIM method was reliable if based on accurate and consistent information. To demonstrate how inconsistent information can lead to different results, the Respondent provided information sheets from three third-party providers with respect to a 12-suite apartment building that sold June 3, 2010. The three reports indicated the GIM for the sale were 8.75, 9.23 and 10.09 respectively (R-1, pp. 42 – 45). Although the sale price is consistent for all three reports, the PGIs are different; the vacancy rates are different and the EPGI are different. Consequently, the GIMs vary substantially (by 15% in the example provided) and this would equally affect the assessed value.

[15] The Respondent provided an equity chart of numerous properties in Market Area 4. These were similar in condition th the subject properties and of reasonably similar size in most cases (R-1, pp. 38). The ages ranged from 1950 to 2009 and clearly showed that all properties with an effective age of 1972 or earlier had been assessed using a GIM of 10.58. The Respondent contended that newer properties than 1972 were assessed at higher rates based on an increment of 0.1 per year of age over and above the 10.58 GIM, and several of these were included in the chart.

[16] The Respondent provided a chart containing the Respondent's seven sales comparables (R-1, p. 32 – 33) with additional information to demonstrate the inconsistency in both GIMs and sale price/suite when actual rents and vacancy rates were used as opposed to typical rents and stabilized vacancy rates. It was noted: that the average suite sizes of the comparables were much smaller than the subject: the ages were older than the subject by 17 to 29 years; none of the suite mixes were. The seven sales comparables were mainly either one bedroom or bachelor suites which indicates that less income could be produced. The chart clearly demonstrated that the price per suite for each sale should be higher though adjustments were not included.

[17] The Respondent's chart (R-1, pp. 32 – 33) also included also the Complainant's four sales from Market Area 4. As the buildings had an effective year built prior to 1973, the assessment GIM used was 10.58. However, the GIMs from all the sales comparables, as calculated by the Network, ranged from 9.0 to 15.10, with an average of 10.74. The time-adjusted sale prices ranged from $87,058 per suite to $145,531 per suite, with an average of $97,221 per suite. The assessments of the subject properties fell within this range.

Rebuttal

[18] The Complainant provided a rebuttal document (R-2) that listed the Network GIMs for each of the Complainant's comparable sales and compared them to the Respondent's GIMs. The Network GIMs ranged from 9.10 to 10.87, whereas the Respondent's GIMs ranged from 10.13 to 15.10. The initial difference was that, with one exception, the Complainant's EPGI was based on actual rents whereas the Respondent's EPGI was based on typical rents.

Decision

[19] It is the decision of the Board is to reduce the assessments as follows:

Roll Number	Original Assessment	Revised Assessment
2917854	$12,212,500	$10,550,000
2918209	$8,141,500	$7,040,000

Reasons for the Decision

[20] The Board finds the Complainant's methodology of adjusting the sales comparable to the subject property to be quite unique (C-1, p. 2). The adjustment factor was apparently, determined by multiplying the sale price per suite of each comparable sale by a factor. The factor was calculated by taking the assessed PGI per suite per month of the subject property, dividing it by the average sale PGI per suite per month, as determined from the Network sales information. The Complainant contended that the resulting ratio provides a method of taking into consideration all the adjustments for variances in the comparable to the subject properties in one single step, namely: location, time adjustments, age and suite mix. This technique appears to be a new concept to the Board which does not appear to be supported by any appraisal theory or methodology, or any assessment manuals. No evidence was provided to substantiate this appraisal technique and consequently the Board placed little weight on this methodology as the adjustment process appears to be more general than specific. Furthermore, the Network sales information appears to be based on actual rental rates at the point of sale and not on the typical or market rates and the ratio calculation involves the mixing of typical and actual rents. As such, the ratio resulting from this technique is questionable.

[21] The Board finds the assessment per suite method to be the most meaningful evidence provided in terms of estimating the value of the subject property. The Board is aware that apartments are purchased and financed primarily based on the income approach using the Net Operating Income (NOI) to which is applied a Capitalization Rate (Cap Rate). The principal method of support for NOI/Cap Rate method is the rule of thumb method of price per suite with upward/downward adjustments being made to compensate for differences in time of sale, location age, condition and suite mix.

[22] Notwithstanding the Respondent's authority to utilize the GIM method the Board is not persuaded that it accurately reflects the value attributable to each individual property in each and every case, as it totally ignores expense ratios that are traditionally higher in older buildings. The Board fully recognizes that the price per suite method and the GIM method are both rule of thumb methods. The weakness of the GIM method is clearly demonstrated when the two GIM columns (R-1, p. 33) are compared as both columns are produced using typical rents and stabilized vacancy rates. Furthermore the Board finds that the typical PGI utilized by the Respondent is lower than the average rents supplied by the CMHC survey for market area 4 (C-1, p.22). Consequently, the resulting GIM will be higher when applied to the sale price of the comparable sale.

[23] The price per suite method, using all of the relevant comparable sales provided by both parties, clearly indicates that the assessed values of $116,309 per suite and $116,307 per suite,

respectively, are high (R-1, pp. 32 – 33). The sale at $145,531 per suite is considered an outlier and not relevant as the time adjusted sale price is 43% higher than the 2013 assessment. Furthermore, there are no other suite prices remotely close to $145,531 per suite even though the Board recognizes this small property has 5 two-bedroom suites and only 1 one-bedroom suite. With regards to the number of suites, the nearest comparable has 11 two-bedroom suites and 9 one-bedroom suites and sold at $87,832 per suite (sale #9). With regards to price, the nearest comparable is only $97,767 per suite and has 1 two-bedroom suite and 5 one bedroom suites (sale #6) which demonstrates the vagaries of the market place and why the GIM method cannot be applied accurately to a broad range of properties.

[24] The Respondent has fully adjusted both the Total Comparable Sales in Market Area 4 and the Complainant's Sales in Market Area 4 (R-1, pp. 32 – 33). The range is from $87,058 per suite to $145,531 per suite with an average of $97,221 per suite which appears to support the assessment, but this range includes (as noted above) what appears to be an outlier at the top end of the scale. Without the outlier the range is $87,058 per suite to $97,797 per suite with an average of $92,389 per suite. The median value is $94,459 per suite with the outlier included, but $93,000 per suite when excluded. The Board notes that the two values, namely the median value at $92,389 per suite and the average value at $93,000 per suite, give excellent support to each other. The Board therefore finds the most meaningful value applicable to the subject property from all the evidence supplied supports the requested value of $100,000 per suite which translates into the assessment value as noted above.

Heard commencing September 16, 2013.

Dated this 16th day of October, 2013, at the City of Edmonton, Alberta.

J. Bowman per Larry Loven

Larry Loven, Presiding Officer

Appearances:

Tom Janzen, CVG
for the Complainant

Andy Lok
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.