Edmonton Composite Assessment Review Board

Citation: CVG v The City of Edmonton, 2013 ECARB 01895

Assessment Roll Number:	Municipal Address:
2917805	11425 - 132 STREET NW
2917904	11405 - 132 STREET NW
2918159	11504 ST. ALBERT TRAIL
2918258	11465 - 132 STREET NW
2918324	11605 - 132 STREET NW
2918449	11564 - 132 STREET NW
10054328	11404 - 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 I of a development, it was requested that argument and evidence submitted for roll number 2917805 be carried forward to roll numbers 2917904, 2918159, 2918258, 2918324, 2918449, and 10054328, where applicable. It was further agreed to by the parties that a single decision be written for the roll numbers given above.

Preliminary Matters

[3] None noted.

Background

[4] The subject properties comprise Phase I of a large apartment development known as Baywood Park, which 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 has 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 two 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 have been assessed by the income approach to value and in particular by the gross income multiplier (GIM) method. The GIM, which is arrived at by market analysis of sales, is the factor by which the effective gross income (EGI) is multiplied to obtain an estimate of value. The EGI is arrived at by subtracting a typical vacancy rate from the Potential Gross Income (PGI), which is the typical market rent that would be collected if the property were fully occupied at the time of valuation.

[6] The 2013 assessments and the prices per suite are as follows:

Roll Number	Assessment	Price/suite
2917805	$4,781,000	$99,604
2917904	$18,811,500	$100,068
2918159	$9,562,000	$99,604
2918258	$2,390,500	$99,604
2918324	$7,171,500	$99,604
2918449	$9,562,000	$99,604
10054328	$9,562,000	$99,604

Issue(s)

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

Legislation

[8] 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.

[9] The *Matters Relating to Assessment And Taxation Regulation* (MRAT), AR 220/2004, reads:

s 2 An assessment of property based on market value

(c) must reflect typical market conditions for properties similar to that property.

Position of the Complainant

[10] 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 properties was higher than it should be as a result of using lower EGIs when analyzing the comparable sales.

[11] In support of the contention that the assessments were high the Complainant provided two charts of sales of apartment buildings (C-1, p.2). The first chart comprised five sales that transacted in 2012. These sales comparables were similar in age to the subject properties but were located in a different market area, Market Area 1. The sale prices ranged from $64,583 per suite to $83,000 per suite and the PGIs ranged from $594 per suite per month to $820 per suite per month, with an average of $701 per suite per month and a median of $708 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 property 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 $80,267 per suite to $91,694 per suite, with an average of $83,299 per suite and a median of $81,176 per suite.

[12] The second chart contains six sales comparables located in the same market area as the subject properties but which were newer by approximately 15 years. These sales were transacted in 2011 and 2012 and the PGI ranged from $807 per suite per month to $840 per suite per month, with an average of $828 per suite and a median of $826 per suite. Following adjustments for time, location and suite mix, the prices ranged from $81,988 per suite to $93,114 per suite, with an average of $89,044 per suite and a median of $90,066 per suite.

[13] The Complainant placed most weight on the sales in the first chart as they were most similar in age to the subject properties and concluded a value of $83,000 per suite was most appropriate for the subject properties.

[14] The first chart showed that the average GIM was 8.79 and the median was 8.57, whereas for the second chart the average GIM was 9.41 and the median was 9.47. The Complainant contended that most weight should be given to the sales in the first chart as they were more similar in physical attributes, and concluded a GIM of 8.75 was appropriate for the subject properties.

[15] In the final analysis, the Complainant concluded that $83,000 per suite was considered appropriate and requested the Board to reduce the assessments as follows:

Roll Number	Original Assessment	Requested Assessment
2917805	$4,781,000	$3,960,000
2917904	$18,811,500	$13,910,000
2918159	$9,562,000	$7,908,000
2918258	$2,390,500	$1,980,000
2918324	$7,171,500	$5,940,000
2918449	$9,562,000	$7,910,000
10054328	$9,562,000	$7,910,000

<u>Position of the Respondent</u>

[16] 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.

[17] The Respondent stated that the GIM method is 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 third-party documents indicated the GIMs for the sale were 8.75, 9.23, and 10.09, respectively (R-1, pp. 48 – 51). Although the sale price is consistent for all three reports, the PGIs are different, as are the vacancy rates and the Effective Potential Gross Income (EPGI). Consequently, the GIMs vary substantially (by 15% in the example provided), which would affect the assessed value.

[18] The Respondent provided an equity chart of numerous properties in Market Area 4. These were in similar condition to the subject properties and of reasonably similar size in most cases (R-1, p. 45). The ages ranged from 1950 to 2009 and clearly showed that all properties with an effective age of 1972 or earlier, including the subject properties, had been assessed using a GIM of 10.58. The Respondent contended that properties newer 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.

[19] The Respondent provided a graph of the Complainant's first five sales (R-1, p. 61) with additional information to demonstrate the inconsistency in both GIM and sale price per suite when actual rents and vacancy rates are used as opposed to typical rents and stabilized vacancy rates. It was also noted that the average suite sizes of the comparables were much smaller than the subject properties. Although the ages were similar to the subject properties, none of the suite mixes were. The five sales were 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.

[20] The Respondent also provided a comprehensive chart of comparable sales in Market Area 4 (R-1, pp. 62 – 63), including the Complainant's sales from Market Area 4 that were not post-facto. As the buildings had an effective year built prior to 1973, the assessment GIM used was 10.58. However the GIMs from the sales, as calculated by the Respondent, 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

[21] 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

[22] The decision of the Board is to reduce the assessments as follows:

Roll Number	Original Assessment	Revised Assessment
2917805	$4,781,000	$4,464,000
2917904	$18,811,500	$15,624,000
2918159	$9,562,000	$8,928,000
2918258	$2,390,500	$2,232,000
2918324	$7,171,500	$6,696,000
2918449	$9,562,000	$8,928,000
100554328	$9,562,000	$8,928,000

Reasons for the Decision

[23] 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 and 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 comparables 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 and 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.

[24] 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.

[25] 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. 63) 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. 23). Consequently, the resulting GIM will be higher when applied to the sale price of the comparable sale.

[26] The price per suite method, using all of the relevant comparable sales provided by both parties, clearly indicates that the assessed value of $99,604 per suite is high (R-1, pp 62-63). 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.

[27] 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 62-63). 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 is $93,000 per suite, which translates into the assessment values as noted above.

Heard commencing September 16, 2013.

Dated this 11th day of October, 2013, at the City of Edmonton, Alberta.

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.