Edmonton Composite Assessment Review Board

Citation: 675 Properties Inc v The City of Edmonton, 2014 ECARB 00267

Assessment Roll Number:	3053584
Municipal Address:	12615 152 AVENUE NW
Assessment Year:	2014
Assessment Type:	Annual New
Assessment Amount:	$9,695,000

Between:

675 Properties Inc

Complainant

and

The City of Edmonton, Assessment and Taxation Branch

Respondent

DECISION OF
Peter Irwin, Presiding Officer
Dale Doan, Board Member
Taras Luciw, Board Member

Procedural Matters

[1] Upon questioning by the Presiding Officer the parties indicated they did not object to the Board's composition. In addition, the Board members stated they had no bias with respect to this file.

Preliminary Matters

[2] There were no preliminary matters.

Background

[3] The subject property located at 12615-152 Avenue NW (Market Area 12) is a 61 suite elevator low rise apartment in average condition constructed in 2002. The suite mix consists of 16 one bedroom and 45 two bedroom units. The upper suites have balconies and surface parking is provided.

[4] The 2014 assessment of $9,695,000 is based on the income approach to value using typical rents, typical vacancy and a Gross Income Multiplier (GIM) of 11.68.

Issues

[5] Is the assessment too high compared to similar properties?

Position of the Complainant

[6] The Complainant provided the Board with a 14 page brief entered as Exhibit C-1 outlining their position and arguments as to why the 2014 assessment is too high.

[7] The Complainant noted that the two bedroom units in the subject property, at approximately 800 square feet in size, are much smaller than normal two bedroom units. The Complainant indicated that the smaller suite size is due to larger common areas.

[8] The Complainant questioned the City's metric calculation to square footage and thought that there was a mistake on the gross square foot versus prior years which showed sizes in metric.

[9] The Complainant provided a letter from a local real estate broker CBRE for the Board's consideration. The letter dated April 8, 2014 proposes that the value of the subject property is $145,000 per unit ($8,845,000). The letter also states that the income for the subject property is limited by the size of the suites.

[10] The Complainant also noted that it was hard to understand how the subject property's 2014 assessment could have increased by 13 percent over the 2013 assessment.

[11] Two pro-form-as for the subject property were provided by the Complainant. The first pro-forma indicating a value of $9,695,339 was based on the City's calculations using a potential gross income derived from typical rents. The second pro-forma indicating a value of $8,960,127 was based on the subject's actual July 2013 rent roll. The same vacancy rate and Gross Income Multiplier was applied in both pro-forma. The Complainant argues that the potential gross income used by the City does not consider suite sizes and that the subject has large common areas and the two bedroom units are smaller and are almost considered a one bedroom with den.

[12] The Complainant also provided bank deposit slips for July 2013 showing dollar amounts for various apartment units within the subject property.

[13] The Complainant provided two comparables for the Board's consideration: one being a sale and the other a listing. The comparable sale dated July 2012 and located at 3147-151 Avenue is of a 99 unit low rise apartment built in 2002 with similar suite mix and style as subject. The selling price was $101,010 per suite. The subject was assessed at $158,934 per suite.

[14] The second comparable located at 10403-158 Avenue is a listing of a 71 unit low rise apartment built in 1981. The Complainant noted that the two bedroom suite sizes were very comparable to the subject's two bedroom suite sizes. The asking price was $150,000 per suite.

[15] The Complainant also provided a rental market report released in the fall of 2013 and published by Canada Mortgage and Housing Corporation (CMHC) that indicated that average rents for one bedroom and two bedroom suites within the subject area (Zone 12 Castledowns) increased by 6.8 percent to 6.9 percent respectively from the fall of 2012 to the fall of 2013.

[16] In summary, the Complainant requested the 2014 assessment be reduced from $9,695,000 to $8,950,000 based on the subject's actual rents.

Position of the Respondent

[17] The Respondent presented the Board with a 54 page brief entered as Exhibit R-1 outlining their position and arguments as to why the 2014 annual new assessment is correct.

[18] The Respondent began their position outlining the process applied in mass appraisal which is as follows:

- properties are stratified into groups of comparable properties
- common property attributes are identified for the properties in each group
- a uniform valuation model is calibrated for each group using market information incorporating the property attributes

[19] The Respondent indicated that for the purpose of the 2014 Annual Assessment, low-rise apartments were valued based on the income approach using typical potential gross income (PGI), typical vacancy, and typical gross income multiplier (GIM).

[20] The Respondent drew the Board's attention to the multi-residential income model that 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. The multi-residential income model is an equation that explains the relationship between value or estimated sale price and the variables that influence real estate value. The equation is as follows:

MARKET VALUE ASSESSMENT =

<u>(Potential Gross Income (PGI) less Vacancy) X Gross Income Multiplier (GIM)</u>

[21] The Respondent explained that PGI is the typical market rent that would be collected if the property were fully occupied at the date of valuation. Income data from all properties responding to a Request for Information (RFI) is analyzed to form the basis of the Potential Gross Income model.

[22] The Respondent also stated that typical vacancy is determined for each market area by analyzing reported vacancies from property owners' income and expense statements.

[23] The Respondent indicated that the 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. The GIM was derived from sales occurring from July 2010 through June 2013.

[24] The Respondent cautioned the Board when relying on outside sources (3rd party information) and that the City does due diligence in analyzing all components of value (rents, vacancies, expenses, capitalization rates and modifiers) and applies the results in a consistent manner.

[25] The Respondent provided a chart of three sales comparables for the Board's consideration. Sale dates were from May 2011 to April 2013. Ages of the comparables ranged

from 2008 through to 2012 as compared to the subject's 2002. None of the sales were in the subject market area. All sales were 4-storey, average condition with balconies and elevator similar to the subject. One notable difference was that all of the sales have enclosed parking while the subject has surface parking. The Respondent noted that enclosed parking is valued at $10,000-$16,000 per suite as per owner occupied condo inventory.

[26] The Respondent also provided a chart of equity comparables all located in the subject's market area 12. All were in average condition and ages ranged from 1969 to 2009. Building heights ranged from 2.5 stories to 5 stories. The majority had no elevator and the majority had surface parking. Average suite size ranges from 80 meters squared to 146 meters squared with the average size 96.59 meters squared compared to the subject average suite size of 95 meters squared. The GIM ranged from 10.03 to 12.03 compared to the subject's GIM of 11.68. Assessment per suite ranged from $98,721 to $185,686 compared to the subject's $158,934.

[27] The Respondent drew the Board's attention to the Complainant's comparable sale #1 indicating that this sale was from a different market area and benefited from a provincial/federal affordable housing grant of $4,950,000 and that the rents are 10% less than market rents. Based on this grant in place, the sale price does not reflect the market value of the fee simple estate.

[28] The Respondent also drew the Board's attention to the Complainant's second comparable, that of a listing. The City provided third party documentation that this listing did sell in October 2013 and was therefore a post-facto sale.

[29] The Respondent turned to the Law and Legislation brief of their evidence package, specifically Section XI "Actual or Typical Rental Income" and the Municipal Government Board (MGB) decision *Sunlife Assurance Company Canada v The City of Edmonton*, MGB BO 038/06 (*Sunlife*), decision that defends the use of typical rents. The decision stated that rental income must be determined on the basis of what is typically paid in the market at the time of valuation. Current economic or market rents are used to form the basis of valuation as opposed to actual rents because in many cases the actual rents reflect historic revenue derived from leases negotiated before the valuation date. That particular Board found that for the purpose of mass appraisal, typical rental rates are to be used rather than the actual contract rents in place.

[30] In summary the Respondent requested that the 2014 assessment of the subject property be confirmed at $9,695,000.

Decision

[31] The decision of the Board is to confirm the 2014 assessment of the subject property at $9,695, 000.

Reasons for the Decision

[32] After review and consideration of the evidence and argument presented by both parties regarding the suite size issue, the Board decided that the Respondent's calculation of 1,022 square feet (95 meters squared), as determined by the Respondent's outside gross building measurements and divided by the number of suites, is more reliable and that the same measurement is applied to all low-rise apartment buildings. The Complainant provided no evidence to support their claim of larger common areas and that the two bedroom suites were approximately 800 square feet.

[33] The Board finds that the sales comparables presented by both Parties were not very beneficial due to the dissimilarities between different market areas, age, and parking amenities and as such the Board placed less weight on these indicators.

[34] In regard to the Respondent's equity comparables, the Board again finds them to be less than beneficial due to the dissimilarities in age, parking amenities, average suite sizes and elevator feature.

[35] In regard to the income approach applied by the Respondent, the Board noted that the Complainant did not challenge the GIM factor of 11.68 or the vacancy rate of 3 percent applied in the Income Detail Report. In fact, in their own pro-forma they used the same figures. However, the Complainant argued that the subject property's actual rents as of July 2013 should be applied rather than the Respondent's typical rents. The Board drew from the *Sunlife* MGB decision that for the purpose of mass appraisal, typical rents are to be used rather than actual rents in place.

[36] The Board finds that the 2014 assessment of the subject property is fair and equitable.

Dissenting Opinion

[37] There was no dissenting opinion.

Heard June 4, 2014.
Dated this 19th day of June, 2014, at the City of Edmonton, Alberta.

Peter Irwin

Peter Irwin, Presiding Officer

Appearances:

Cam Gill, 675 Properties Inc.
for the Complainant

Ralf Winkler, City of Edmonton
Steve Lutes, City of Edmonton
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.

Appendix

Legislation

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.

Exhibits

C-1: Complainant's Disclosure – 14 pages
R-1: Respondent's Disclosure, including Law & Legislation – 54 pages