

How an apartment building is assessed and how to challenge the assessed value



Over the past seven years Burgess Cawley Sullivan and Associates Ltd. (BCS) have reviewed the Assessments of 150 to 200 apartment buildings each year and have negotiated reductions of averaging \$50,000,000 per year, reflecting a total tax savings over the past seven years of approximately \$1,400,000.

The reductions have been based on a wide variety of issues, from correcting errors in the Assessor's building information, to removing unwarranted locational adjustments, to correcting estimates of economic rent and operating expenses, as well as changing the methodology of valuing buildings and parking. The reductions have been achieved through a broad-based analysis of the rental apartment market in which the Assessments for every high-rise building and all major low-rise buildings in Vancouver are analyzed, along with high-rise and major low-rise building in other market in the Lower Mainland and Greater Victoria.

The broad-based review and analysis is used to identify how properties are valued, the Assessor's projections of market rents, expense ratios, vacancy rates and yield rates. Other issues include the treatment of Chattels (appliances), and locational adjustments. The condition of the building and need for substantial capital improvements may also be taken into consideration.

IMPORTANT DATES

July 1st / October 31st

VALUATION PERAMETERS

- Building and Parking Composition
- Economic Rents
- Vacancy and Bad Debt Allowance
- Expense Ratio
- Yield Rate
- Locational adjustments
- Chattels
- Underlying land value

COMMON ERRORS in the Assessor's Valuaton

- Wrong number of total units
- Wrong composition of units
- Wrong number of parking stalls
- Wrong valuation model
 - High-rise valued as low-rise
 - Low-rise valued at high-rise
 - Heritage masonry building valued as standard building
 - Good quality model versus average quality model

EQUITY VERSUS MARKET VALUE

UNIQUE PROPERTIES



The 2014 Assessed Value of a multi-family rental apartment building is supposed to be reflective of the market value of the building as at July 1, 2013, based on the physical condition of the building as at October 31, 2013. The Assessed Value is based on mass appraisal, with the Assessor using estimates of economic rents, vacancy rates, expense ratios and capitalization rates.

A property is to be assessed at the lesser of Market Value or Equitable Value. Market Value is based on sales of similar buildings in the subject area, whereas Equitable Value is based on a comparison on how the subject property has been valued in comparison to other similar buildings in the subject area.

The Assessment Reviews that BCS undertake is a multi-step process that includes an analysis of the subject property on both a Market approach and an Equity approach. The review begins with the analysis of the income and expenses of the subject property and the rent roll in comparison to the Assessor's valuation. The first three steps relate to the Assessor's valuation based on market evidence, while the final steps relate to the Assessor's valuation based on Equity.

The first step is to determine if the Assessor's information correct, in many instances there is an error in the Assessor's information i.e. number of units, type of units, or number of parking stalls.

The second step is to determine if the Assessor's assumptions regarding economic rent is appropriate, are the Assessor's economic rents above those that are achieved or achievable in the subject property. Does the Assessor believe that the subject property is in superior condition than actually exists, or do the layout and size of the subject units preclude achieving the Assessor's projected rents?

The third step is to determine if the overall Assessment is supportable based on the sales evidence, this entails a review of the listing and sales activity in the subject area. This is particularly relevant where there is a lack of sales evidence. In 2013 BCS was able to successfully appeal the Assessed Value of all large low-rise rental apartment buildings the City of North Vancouver because the Assessor had adjusted the yield rate without having any sales evidence to support the change.

The fourth and fifth steps relate to the analysis of the subject property on an Equity basis.

The fourth step is to review the analysis of the subject property in comparison to other buildings of similar age, style and location. Has the building been Assessed using the same valuation model as similar buildings, it is not unusual to find incorrect valuation models used, particularly for buildings that offer electric baseboard heat paid by the tenant or buildings of four to six storeys. Has the Assessor been consistent in his application of rents, vacancy and bad debt allowances, operating expenses and yield rates? We are aware of a building located in the West End that is assessed \$600,000 higher than any other building of a similar design, age and location. The property manager believes that the building is fairly valued and does not want the Assessment reviewed.

