

# 2016

## ASSESSMENT METHODOLOGY

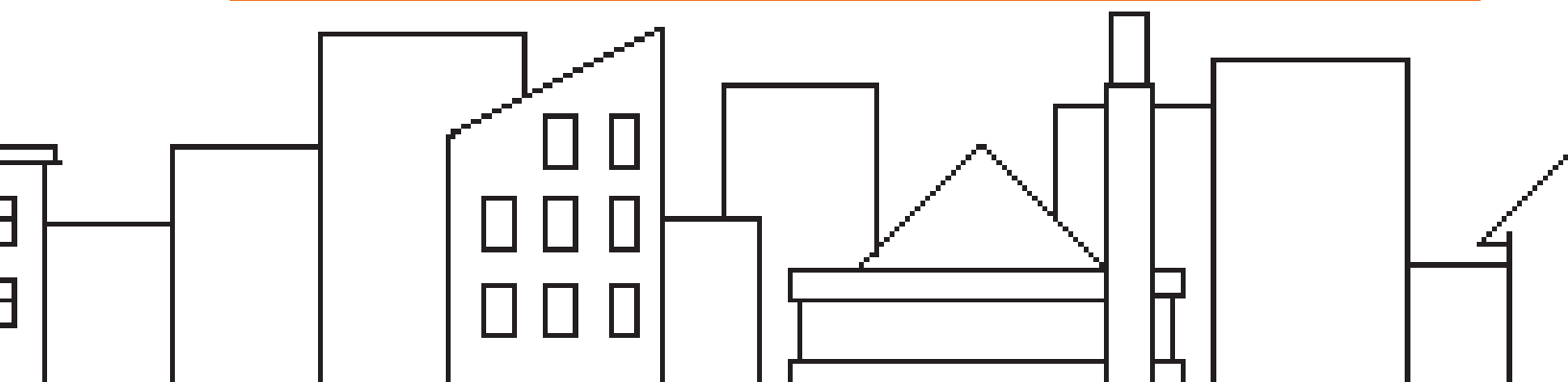
### MULTI-RESIDENTIAL MANUFACTURED HOME PARK LAND

A summary of the methods used by the City of Edmonton in determining the value of multi-residential manufactured home park land properties in Edmonton for assessment purposes.

*Revised on May 4, 2016. See page 15 for details.*

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## Scope

This guide is an aid in explaining how properties are valued for assessment purposes. It sets out the valuation method and procedure to derive market values. The information presented in this guide is aimed at deriving values for a group of properties with similar property characteristics. In some circumstances, not every property's valuation parameters will be covered.

The guide is intended as a tool; it is not intended to replace the assessor's judgment in the valuation process.

This icon  signifies when legislation is quoted.

## Introduction

The Alberta assessment and taxation system is based on the laws outlined in the *Municipal Government Act*, RSA 2000, cM-26 [MGA], and all associated regulations, including, for example *Matters Relating to Assessment and Taxation Regulation*, Alta Reg 220/04 [MRAT].

The MGA requires the assessment of property be prepared using mass appraisal. Properties are valued based on a valuation date of July 1, 2015 and the property's condition of December 31, 2015. Many of these terms are defined in the legislation.



s.284(1)(r) “**property**” means

- (i) a parcel of land
- (ii) an improvement, or
- (iii) a parcel of land and the improvements to it

MGA s.284(1)(r)

s.1(n) “**regulated property**” means

- (i) land in respect of which the valuation standard is agricultural use value,
- (ii) a railway,
- (iii) linear property, or
- (iv) machinery and equipment

MRAT s.1(1)(n)

s.6(1) the **valuation standard** for the land and improvements is market value unless subsection (2)... applies

MRAT s.6(1)

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

MGA s.1(1)(n)

s.2 An assessment of property based on **market value**

- (a) must be prepared using mass appraisal,
- (b) must be an estimate of the value of the fee simple estate in the property, and
- (c) must reflect typical market conditions for properties similar to that property

MRAT s.2

s.289(2) Each assessment must reflect

- (a) the characteristics and physical condition of the property on **December 31** of the year prior to the year in which a tax is imposed

MGA s.289(2)(a)

s.3 Any assessment prepared in accordance with the Act must be an estimate of the value of a property on **July 1** of the assessment year

MRAT s.3

s.1(k) “**mass appraisal**” means the process of preparing assessments for a group of properties using standard methods and common data and allowing for statistical testing

MRAT s.1(k)

While there are many forms of ownership, the legislation requires the City of Edmonton to assess the fee simple estate. The fee simple estate is unencumbered by any other interest or estate, and subject only to the limitations of government.

***fee simple*** – in land ownership, complete interest in a property subject only to governmental powers

*Glossary for Property Appraisal and Assessment, p. 56*

In summary, a property assessment is:

- an estimate of the property's market value on July 1, 2015
- prepared using mass appraisal
- an estimate of the value of the fee simple estate in the property
- a reflection of the property's condition on December 31, 2015
- prepared assuming typical market conditions on the open market by a willing seller to a willing buyer

## Mass Appraisal

Mass appraisal is the legislated methodology used by the City of Edmonton for valuing individual properties, and involves the following process:

- properties are stratified into groups of comparable property
- common property characteristics are identified for the properties in each group
- a uniform valuation model is created for each property group

***property characteristic***: A feature that helps to identify, tell apart, or describe recognizably, a distinguishing mark or trait

[www.thefreedictionary.com](http://www.thefreedictionary.com)



**27.1(c) “valuation model”** means the representation of the relationship between property characteristics and their value in the real estate marketplace using a mass appraisal process

MRAT s.27.1(c)

The following two quotations indicate how the International Association of Assessing Officers distinguishes between mass appraisal and single-property appraisal:

*... “single-property appraisal is the valuation of a particular property as of a given date; mass appraisal is the valuation of many properties as of a given date, using standard procedures and statistical testing.”*

*... “Also, mass appraisal requires standardized procedures across many properties. Thus, valuation models developed for mass appraisal purposes must represent supply and demand patterns for groups of properties rather than a single property.”*

*Property Appraisal and Assessment Administration, pg.88-89.*

For both mass appraisal and single-property appraisal, the process consists of the following stages:

	Mass Appraisal	Single Appraisal
Definition and Purpose	Mass appraisal is used to determine the assessment base for property taxation in accordance with legislative requirements	The client specifies the nature of the value to be estimated, including rights to be valued, effective date of valuation, and any limiting conditions
Data Collection	Mass appraisal requires a continuing program to maintain a current database of property characteristics and market information.	The extent of data collection is specific to each assignment and depends on the nature of the client's requirements
Market Analysis	Mass appraisal is predicated on highest and best use	Market analysis includes the analysis of highest and best use
Valuation Model	Valuation procedures are predicated on groups of comparable properties	Subject property is the focus of the valuation. The analysis of comparable properties is generally six or less
Validation	The testing of acceptable analysis and objective criteria	The reliability of the value estimate is more subjective. Acceptability can be judged by the depth of research and analysis of comparable sales

## Valuation Models

A valuation model creates an equation of variables, factors and coefficients that explains the relationship between estimated market value and property characteristics.



s.27.1(a) **“coefficient”** means a number that represents the quantified relationship of each variable to the assessed value of a property when derived through a mass appraisal process

(b) **“factor”** means a property characteristic that contributes to a value of a property;

(d) **“variable”** means a quantitative or qualitative representation of a property characteristic used in a valuation model

*MRAT, s.27.1 (a), (b) and (d)*

s.27.3(1) ...information that is required to be provided...does not include coefficients

*MRAT, s.27.3(1)*

### Valuation Model

- variables are created from property characteristics
- analysis of how variables effect market value
- factors and coefficients are determined
- the resulting valuation models are applied to property characteristics

Depending on the property type multiple regression analysis or other mass appraisal techniques are used to determine variables, factors and coefficients.

**“Multiple Regression Analysis (MRA):** a statistical technique used to analyze data to predict market value (dependent variable) from known values of property characteristics (independent variables)”

*Property Appraisal and Assessment Administration, p. 653*

An assessed value is calculated by applying the appropriate valuation model to individual properties within a group.

## Approaches to Value

The most common approaches to determine market value are the direct sales, income, and cost. Each emphasizes a particular kind of market evidence.

### Direct Sales Approach

Typical market value (or some other characteristic) is determined by referencing comparable sales and other market data. It is often used when sufficient sales or market data is available. It may also be referred to as the Sales Comparison Approach

### Income Approach

This approach considers the typical actions of renters, buyers and sellers when purchasing income-producing properties. This approach estimates the typical market value of a property by determining the present value of the projected income stream. Often used to value rental or leased property

### Cost Approach

Typical market value is calculated by adding the depreciated replacement cost of the improvements to the estimated value of land. It is often used for properties under construction or when there is limited market data available

## Property Groups

The use of a property determines the property groupings and the valuation model applied.



***use:** is the purpose or activity a property is designed, arranged, developed or intended for, or is occupied or maintained as*

***Zoning Bylaw No. 12800, 2014, s. 6.1(108)***

### Multi Residential

Multi-Residential group consists of investment properties of four or more dwelling units, each having one or more rooms accommodating sitting, sleeping, sanitary facilities and most often has a kitchen. Excluded from this group are those still under construction and dormitories.

### Sub-Group

Some property groups have sub-groups based on property characteristics. This guide is for the valuation of Manufactured Home Park Land (not the improvements).

**Manufactured Home Park** means a parcel of land under one title which has been divided into Mobile Home Lots. (Zoning Bylaw, s.6.1(60)).



For this property group, the assessment is determined using the income approach. It is the most appropriate method of valuation for Multi Residential Manufactured Home Park properties in the City of Edmonton.

### Income Approach Definitions

To provide a clear understanding of the terms used in the income approach, the following definitions are supplied.

**Typical Market Rent** is the rent currently prevailing in the market for properties comparable to the subject property (otherwise known as current economic rent). Current economic or market rents are used to form the basis of the valuation as opposed to actual rents, because in many cases actual rents reflect historical revenues derived from leases negotiated before the valuation date. In determining potential gross income, the assessor is not bound by the contractual rent between the landlord and tenant, but must determine rental income on the basis of what is typically paid in the market at the time of valuation.

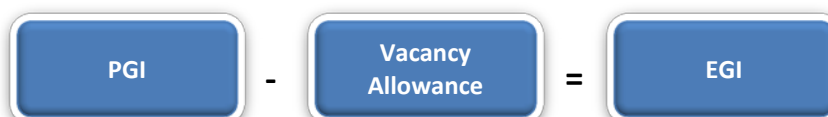
**Potential Gross Income (PGI)** is the total current market rent for all space types that would be collected if the property were fully occupied at the date of valuation. In estimating PGI, the assessor distinguishes between market rent and contract rent. Market rent is the rate prevailing in the market for comparable properties and is used in calculating market value by the income approach. Contract rent is the actual amount agreed to by landlord and tenant.

Potential gross income for Mobile Home Parks is derived by multiplying all **Mobile Home Stalls** on the property by the current market rent for those stalls.



**Vacancy Allowance** is a deduction from the potential gross income for typical vacancy and collection losses, assuming current market conditions and typical management. Vacancy losses are best described as an allowance for vacant space. Collection losses are considered unpaid rents that the landlord is unlikely to recover. These allowances are usually expressed as a percentage of potential gross income.

**Effective Gross Income (EGI)** is the anticipated income from all operations of real property adjusted for vacancy and collection loss.



**Operating Expenses (OE)** are the periodic expenditures necessary to maintain the real property and continue the production of the effective gross income; these are accounted for by the expenses deducted in the pro forma.

**Net Operating Income (NOI)** is the actual or anticipated (before income tax) net income from the operation of the property after deducting all expenses from the effective gross income but before

debt servicing costs. The term is often abbreviated to net income and sometimes stated as net income before recapture.

$$\text{EGI} - \text{OE} = \text{NOI}$$

**Overall Capitalization Rate (Cap Rate)** is the rate reflecting the relationship between the anticipated net operating income from a single year and the total price or value of the property. The cap rate converts net operating income into an indication of property value. The cap rate, in its basic formula, is found by dividing net operating income by the sale price.

$$\text{NOI} \div \text{CAP RATE} = \text{MARKET VALUE ESTIMATE}$$

### Alternative Capitalization Techniques

When sufficient sales data is not available to derive a capitalization rate directly from the market, as is the case for Mobile Home Park Land; the 'Debt Coverage Ratio Approach' can be used. This approach derives a capitalization rate by analyzing various factors, including mortgage rates, typical mortgage terms, the typical loan-to-value ratio, and expected returns on investment.

*"Appraisal of Mobile Home Parks... The appraiser should study the various methods of capitalization to arrive that the most appropriate method and the most suitable capitalization rate. The rate may depend on financing, including mortgage interest rate, term, and ratio of loan to value."*

*Encyclopedia of Real Estate Appraising*

### Debt Coverage Ratio (DCR) Approach

The City has used the DCR technique for valuing Mobile Home Park Land. This approach derives a capitalization rate by analyzing various factors, including mortgage rates, typical mortgage terms, the typical loan-to-value ratio, and expected returns on investment. The "Encyclopedia of Real Estate Appraising", under the section "Appraisal of Mobile Home Parks" gives weight to such approaches:

*"The appraiser should study the various methods of capitalization to arrive that the most appropriate method and the most suitable capitalization rate. The rate may depend on financing, including mortgage interest rate, term, and ratio of loan to value."*

The method of determining an overall capitalization rate to apply is summarized in "The appraisal of Real Estate, 2<sup>nd</sup> Canadian Edition" textbook on page 22.8:

*"To estimate an overall rate, the debt coverage ratio can be multiplied by the mortgage capitalization rate and the loan-to-value ratio....The formula is:*

$$Ro = DCR * R_M * M$$

*With this method, lenders can use market data to check on the reasonableness of capitalization rates derived from comparables and internal valuation guidelines.”*

With this method, market data can be used as a check on the reasonableness of capitalization rates applied.

## Zoning

The rules and regulations for land development within Edmonton are contained in the Zoning Bylaw, No. 12800.



*s.6.1(111) **zone:** is a specific group of listed use classes and development regulations which regulate the use and development of land within specific geographic areas of the City*

*Zoning Bylaw No. 12800, 2014, s. 6.1(111)*

Residential land use zones vary in part due to density.



*s.6.1(23) **density:** is the number of dwellings on a site expressed as dwellings per hectare when referring to residential related development*

*Zoning Bylaw No. 12800, 2014, s. 6.1(23)*

A multi residential zone summary is in the appendix.

Not all property conforms to the zoning use set out in the Zoning Bylaw. In these cases, an effective zoning is applied to reflect the current use of the property. The effective zoning may differ from the actual zoning when the current use differs from the Zoning Bylaw (e.g., a legal nonconforming use).



*643(1) If a development permit has been issued on or before the day on which a land use bylaw or a land use amendment bylaw comes into force in a municipality and the bylaw would make the development in respect of which the permit was issued a non-conforming use or non-conforming building, the development permit continues in effect in spite of the coming into force of the bylaw*

*MGA, s. 643(111)*

## Variables

Below is the list of variables that affect the assessment value for 2016.

**Mobile/Manufactured Home Stalls**

**Potential Gross Income**

**Capitalization Rate**

**Class**

**Mobile/Manufactured Home Stalls:** This is the total number of stalls that are available for rent in the mobile home park.

**Potential Gross Income:** This is the total assessed market rent for the mobile home park. It is calculated by multiplying the monthly rental rate per stall (as shown below) by the number of mobile home stalls. This result is multiplied by 12 to estimate the yearly market rent.

**Class:** This determines the market rent applied to number of stalls in the mobile home park as well as the cap rate applied to the estimate of net operating income. There are three basic classes for mobile home land in Edmonton; A, B, and C. In addition to providing a basic stall and services for each mobile home, different classes will offer different benefits to the residents.

- A Class mobile home parks offer some on site (or immediately adjacent) features to the tenants such as community centers, restaurants, car washes, realty offices, skating rinks, convenience stores, pet grooming salons, etc.
- B class mobile home parks do not have on-site amenities, but still offer a place to situate a mobile or manufactured home in a neighborhood very similar to the average single family house and are still reasonably close to nearby schools and shopping.
- C Class mobile home parks are similar to B class, except they are located in less desirable areas such as industrial parks and are further from schools and shopping.

The rates applied to these classes are summarized as follows:

	Rent/Stall	Cap Rate
Class A	\$ 600	7.5%
Class B	\$ 550	7.5%
Class C	\$ 550	8%

\*vacancy is stabilized at 3% and expenses at 35% for all mobile home park land in Edmonton.

## Definitions

284 (1) (n); “**manufactured home community** means a parcel of land that (i) is designated in the land use bylaw of a municipality as a manufactured home community, and (ii) includes at least 3 designated manufactured home sites that are rented or available for rent.

MGA, s. 284 (1) (n)

**Mobile Home Stalls;** The total number of the individual stalls set out for each mobile/manufactured home unit.

**Location;** the physical location of the mobile home park within the City of Edmonton. Some locations offer more appeal than others due to their proximity to influences such as shopping, schools, and transit.

**Amenities;** some mobile home parks offer on site features to the tenants such as community centers, restaurants, car washes, realty offices, skating rinks, convenience stores, pet grooming salons, etc.

**Foreclosure:** Foreclosure is a legal process by which a lien on a property is enforced. Foreclosure results in the mortgagee becoming titleholder to, or forcing the sale of, the mortgaged property when the mortgagor defaults on the mortgage and does not redeem it.

**Judicial Sale:** (1) A sale made at the direction of a court, by an officer duly appointed and commissioned to sell, as distinguished from a sale by an owner in virtue of his right of property. (2) A court action that enforces a judgment lien by selling property to pay a debt.

**Standardize:** To adjust, for appraisal purposes, reported data such as income and expenses, to remove the effects of non-real-estate factors, such as abnormally good or bad management. Another common term for this adjustment process is normalization.

## Provincial Quality Standards

For Manufactured Home Park properties the City of Edmonton used the income approach to calculate the 2016 assessments. The assessment models, the process utilized, and the results are submitted annually to the Assessment Services Branch of the Department of Municipal Affairs for audit purposes. This audit is used to determine the accuracy of our predictions relative to the market place, and is a direct reflection on the accuracy of our models. The results indicated that our assessments meet Provincial Quality Standards as set out in *MRAT*.

## References

City of Edmonton. (2014). *Zoning Bylaw No. 12800*. Retrieved from City of Edmonton:  
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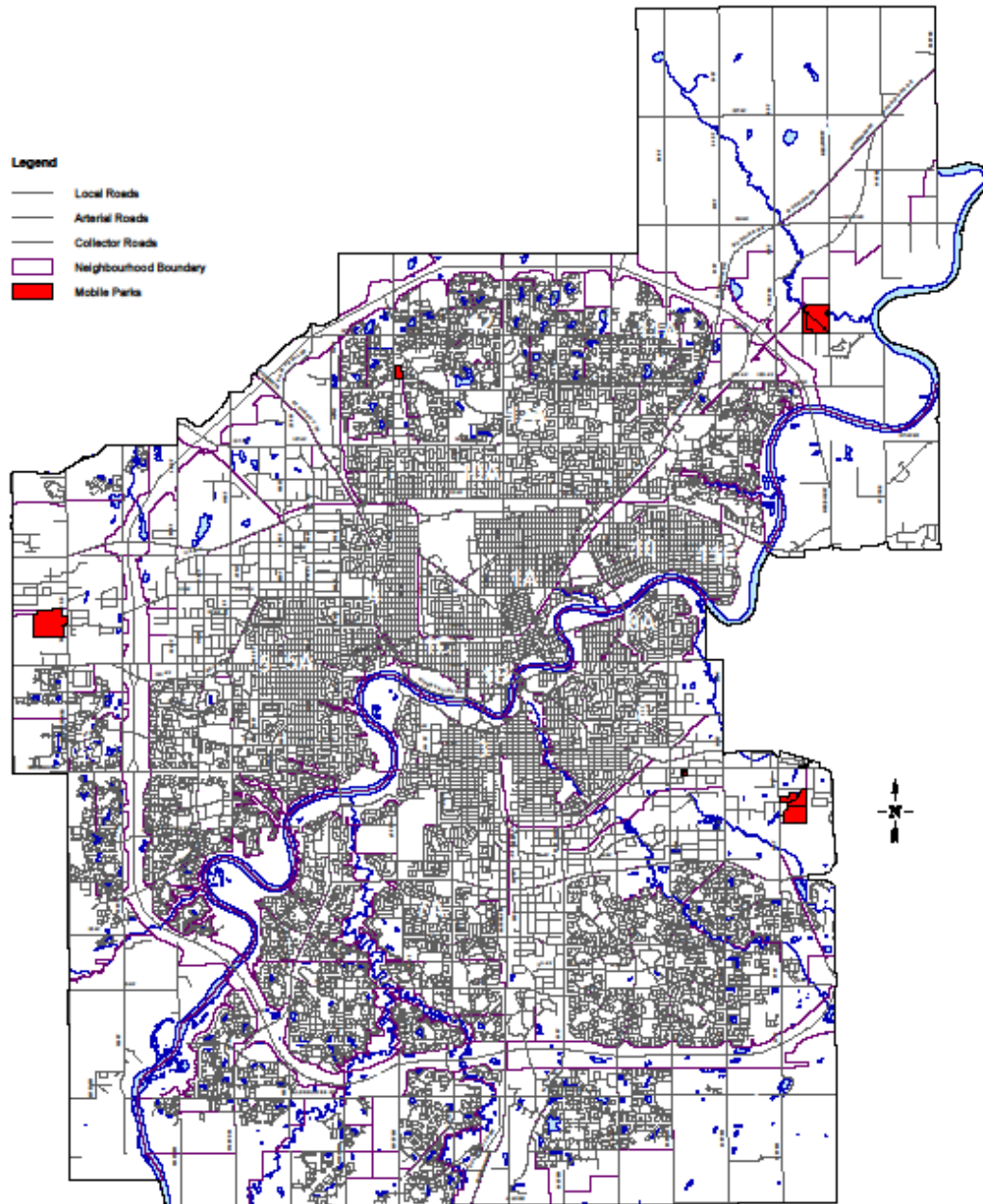
Province of Alberta. (2015). *Municipal Government Act*. Edmonton, AB: Queen's Printer.

## Appendix

### Map



## 2016 Mobile Home Park Map



Map compiled by: The Application Team  
Assessment and Taxation, City of Edmonton  
Effective: January 2016

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## Zone Summary

Residential	
RA7	<b>Low Rise Apartment Zone (s.210)</b> provides for low rise apartment buildings
RA8	<b>Medium Rise Apartment Zone (s.220)</b> provides for medium rise apartment buildings
RA9	<b>High Rise Apartment Zone (s.230)</b> provides for high rise apartment buildings
RR	<b>Rural Residential Zone (s.240)</b> is to provide for single detached residential development of a permanent nature in a rural setting, generally without the provision of the full range of urban utility services
RMU	<b>Residential Mixed Use Zone (s.910.10)</b> is to provide for primarily medium to high density residential mixed-use developments, with limited commercial, institutional, office and service Uses distributed on-site
RMH	<b>Mobile Home Zone (s.250)</b> is to provide for Mobile Homes developed within a Mobile Home Park or Mobile Home Subdivision.

For additional zone details, refer to the Zoning Bylaw.



## Measure Conversion Chart

Imperial to Metric – Length	Imperial to Metric – Area
1 inch (in) = <b>2.54</b> centimetres (cm)	1 square foot (sqft) = <b>0.09290</b> square metre (m <sup>2</sup> )
1 foot (ft) = <b>0.3048</b> metres (m)	1 acre (ac) = <b>4,046.86</b> square metre (m <sup>2</sup> )
Imperial Conversions	1 acre (ac) = <b>0.40469</b> hectares (ha)
1 acre (ac) = <b>43,560</b> square feet (sqft)	Metric Conversions
1 square mile = <b>640</b> acres (ac)	1 square kilometer (sq km) = <b>100</b> hectares (ha)
1 section = <b>640</b> acres (ac)	1 hectare (ha) = <b>10,000</b> square metres (m <sup>2</sup> )

## Revision History

May 4, 2016 – Added map on page 15.