

Market Value Assessment in Saskatchewan Handbook **Multi-Residential**

Valuation Guide



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Multi-Residential Valuation Guide

Market Value Based Assessment Legislation in Saskatchewan

Saskatchewan has different assessment legislation¹ than other jurisdictions in Canada that must be taken into account when valuing properties for assessment and taxation purposes. There are specific definitions in Saskatchewan for “base date”, “market value”, “Market Valuation Standard” and “mass appraisal”. It is important to understand how these definitions relate to one another and the requirement for market value based assessments to be determined in accordance with the Market Valuation Standard.

Base Date is defined as “...the date established by the agency for determining the value of land and improvements for the purpose of establishing assessment rolls for the year in which the valuation is to be effective and for each subsequent year in which the next revaluation is to be effective;”

Market Value is defined as the “...amount that a property should be expected to realize if the estate in fee simple in the property is sold in a competitive and open market by a willing seller to a willing buyer, each acting prudently and knowledgeably, and assuming that the amount is not affected by undue stimuli;”.

Market Valuation Standard means the “standard achieved when the assessed value of property:

- (i) is prepared using mass appraisal;
- (ii) is an estimate of the market value of the estate in fee simple in the property;
- (iii) reflects typical market conditions for similar properties; and
- (iv) meets quality assurance standards established by order of the agency;”

Mass appraisal is defined as “...the process of preparing assessments for a group of properties as of the base date using standard appraisal methods, employing common data and allowing for statistical testing;”.

Assessment legislation in Saskatchewan requires that non-regulated property assessments be determined pursuant to the Market Valuation Standard. Throughout this Handbook the term “market value based assessments” is used to refer to non-regulated property assessments. Unlike single property appraisals, market value based assessments must be prepared using mass appraisal and “...shall not be varied on appeal using single property appraisal techniques”. All Handbook references to market value are subject to the requirements of the Market Valuation Standard.

¹ The following Acts provide the statutory basis for property assessment in Saskatchewan:

- *The Assessment Management Agency Act*
- *The Legislation Act*
- *The Cities Act*
- *The Municipalities Act*
- *The Northern Municipalities Act, 2010*

For more details on how to access this information refer to Appendix 1: Resources - Section 2a (Publications Saskatchewan).

1.0 Introduction

Multi-residential buildings are structures that contain many dwelling units, each with its own set of rooms. This can include a wide variety of real estate from fourplexes to luxury high-rise apartment complexes.

The valuation methods described in this valuation guide are designed to suit the following types of properties:

- multi-residential buildings of four or more rental units.

The methods presented here may also apply to other types of multi-residential property such as duplexes, triplexes and townhouses. However, the material presented in this valuation guide does not directly address these other types of multi-residential buildings.

Apartments are a common type of multi-residential building and as such are frequently used to provide an illustration for the various examples in this valuation guide.

Multi-residential buildings are properties that return revenue in the form of rents to their owners. They are typically purchased for investment purposes; and thus the properties' ability to earn income is the critical element affecting its value from a market point of view. The potential income from a multi-residential building is affected by many factors including demand for space, economic conditions, and the risk associated with the operation of the property. All these conditions affect how the market views a multi-residential property and thus its market value based assessment.

1.1 Scope of Valuation Guide

- This valuation guide is designed as an aid in the valuation of multi-residential buildings, containing four or more units, for assessment purposes.
- It sets out procedures to follow to derive market value based assessments for multi-residential properties using the income approach based on:
 - the direct capitalization method
 - gross income multiplier method
- This valuation guide provides a practical tool to evaluate and determine market value based assessments.
- Valuation parameters provide the guidelines that establish statistically sound market value based assessments for multi-residential buildings as of the base date.
- The valuation guide is designed as a tool to aid the assessor in deriving market value based assessments; it is not intended to replace the assessor's judgement in the valuation process.
- The methods presented in this valuation guide are aimed at deriving assessment values for a number of different groups of multi-residential buildings.

Hypothetical data and analysis are provided throughout this Valuation Guide in the narrative and in various examples, tables and forms. These examples are provided for illustrative purposes only. The exact form of the market value based assessment analysis is up to the discretion of the assessor subject to the Market Valuation Standard and other relevant legislation.

2.0 Analysis of Valuation Approaches

2.1 Approaches to Value

Sales Comparison Approach

Multi-residential buildings usually sell with some degree of regularity. However, there are many types of multi-residential buildings and it may not always be possible to obtain a sufficient number of sales for a particular type of property (e.g. older walk-up apartments, luxury high-rises) in every assessment valuation period. Where the sale information is present and applicable, the sales comparison approach may be considered. If sales information is not sufficient then other approaches to value may be considered.

Income Approach

Multi-residential buildings generate rental income. Rental information is generally available for all types of multi-residential properties, although income and expense statements and other financial information may be difficult to obtain.

With the appropriate financial information, it is possible to establish the valuation parameters needed to complete a gross income multiplier or direct capitalization valuation method on multi-residential properties. The rental information that is typically available for multi-residential buildings generally supports the use of a gross income multiplier method. Therefore, the income approach can be employed to establish market value based assessments for multi-residential properties.

Cost Approach

Multi-residential building rents vary with general economic conditions, the supply of residential units, and the demand for such. As a result, the values of multi-residential buildings may fluctuate over time. Without close analysis of inflationary and deflationary pressures, of changes in land values and the proper application of depreciation, the cost approach does not deal well with such fluctuations. Therefore, the cost approach is not recommended for the valuation of multi-residential properties.

2.2 Recommendation

Because multi-residential properties are bought, sold and developed on the basis of expected income, the income approach to value reflects the manner in which the market views these properties. Since the income approach applies well in a mass appraisal environment the following recommendation is made:

The income approach is recommended for the valuation of multi-residential properties for assessment purposes.

2.3 Application of the Income Approach to Value

Income Approach Methods

In general, there are two methods available to convert future income into a present value:

- Direct capitalization, and
- Yield capitalization (discounted cash flow analysis).

The direct capitalization method is most applicable to the valuation of income-producing properties in a mass appraisal environment. It requires the least amount of data to apply, reflects typical rents and market conditions, and is best suited to the use of statistical analysis. The yield capitalization method is not suitable for use in mass appraisal valuations in Saskatchewan due to its consideration of individual investor preferences (reflects personal versus typical market conditions), its need for more market data and numerous estimates of rents, holding periods and projected reversions, and its lack of suitability for statistical analysis. For these reasons the yield capitalization method will not be further detailed in this Guide.

The valuation approaches presented in this valuation guide employ two variations of the direct capitalization method. Both methods rely upon the same principles:

- Capitalization of Net Operating Income; and
- Gross Income Multiplier.

Overview of the Direct Capitalization Method

The analysis in this section presents a direct capitalization method that is suited for mass appraisal applications.

Direct capitalization converts or “capitalizes” the expected level of potential net income into a market value based assessment using an overall capitalization rate. The conversion factor or capitalization rate is a reflection of all of the investor’s relative and comparative feelings and aspirations about the property in light of the investment characteristics offered by the asset and in comparison, to other investment opportunities on the market.

In its most basic form, the direct capitalization method is an elementary mathematical ratio involving the estimation of typical net operating income (NOI) as of the base date, which is then capitalized into value to produce a market value based assessment.

The Direct Capitalization Method

$$\text{Market Value} = \frac{\text{Net Annual Operating Income}}{\text{Capitalization Rate}} \quad V = \frac{\text{NOI}}{R}$$

For example:

$$\begin{aligned} \text{NOI} &= \$100,000 \\ \text{Capitalization Rate (R)} &= 10\% \\ \text{Market Value} &= \$100,000 \div 0.10 = \$1,000,000 \end{aligned}$$

Although there are other methods of converting expected future income into an estimate of value (e.g. discounted cash flow), the direct capitalization method lends itself to mass appraisal applications. It is possible to develop market value based assessments under this formula through proper evaluation of the potential net income and through the selection of an appropriate capitalization rate.

In establishing market value based assessments using the income approach, the objective is to evaluate the typical income generated by the real estate.

Overview of the Gross Income Multiplier Method (GIM)

Where the direct capitalization method capitalizes net operating income, the gross income multiplier derives values on the basis of gross income (gross rent). Accordingly, these multipliers may be used when data on operating expenses are unavailable, inconsistent or otherwise unreliable.

By convention, a gross rent multiplier (GRM) is the factor applied to the gross monthly rent, and a gross income multiplier (GIM) is the factor applied to the gross annual income.

The Gross Income Multiplier Formula

$$\text{Market Value} = \text{Gross Annual Income} \times \text{Gross Income Multiplier}$$

A GIM is developed through the analysis of sales of similar properties as it relates market value evidence to the gross income of those properties as indicated by the following formula:

$$\text{Sale Price} \div \text{Gross Annual Income} = \text{Gross Income Multiplier}$$

2.4 Practical Valuation Process

In this valuation guide the income approach has been developed into a practical valuation tool with guidelines on:

- Collecting data;
- Analysing information;
- Developing valuation parameters;
- Determining market value based assessments (Refer to the Introduction Chapter for a general discussion on MRA.); and
- Testing the quality of assessment values. (Refer to the Valuation Parameters Guide for a general discussion on statistical testing.)

3.0 Multi-Residential Valuation Process

Overview of the Procedure

- 1) Collect appropriate information.
- 2) Classify multi-residential buildings into homogeneous groups.
- 3) Establish the typical gross market rents for each group and sub-group of multi-residential property.
- 4) Select valuation process:
 - Direct capitalization method; or
 - Gross income multiplier method.
- 5) Apply method(s) to derive market value based assessments.
- 6) Add / deduct for other appropriate value, if required.
- 7) Determine a market value based assessment of the property.
- 8) Test results.

3.1 Collect Appropriate Data

More than any other factor the type and quality of information available dictates the methods that can be used to value properties. The effort put in at the information collection stage will determine the quality of the final analysis.

Supporting Information

Sources of supporting information include: multi-residential building owners/managers, real estate consultants and brokers, real estate publications, industry associations, and government sources such as Canada Mortgage and Housing Corporation (CMHC).

Property Information

To compare, classify and develop useful GIMs and valuation parameters for multi-residential properties, it is necessary to obtain pertinent physical and descriptive information. Typical information that can be collected for a property and entered into the assessor's valuation system is shown on the Multi-Residential Data Entry Example. (*Refer to Figure 6.*)

Information from Assessment Records

Where possible, the assessor will verify the existing assessment record information when inspecting the property. When the information is not available or obtainable from inspection, the property owner (or the designated contact person) is typically contacted to provide the following information:

- Year built,
- Size:
 - area of site
 - floor area
 - number of units
 - number of floors
- Unit mix (commercial, bachelor, 1 bedroom, 2 bedroom, etc.); and
- Age of improvement.

Property Inspection

To keep records up to date, all assessed properties are generally inspected from time to time. Along with the physical measurements the following types of items may be noted when inspecting a multi-residential property:

- Condition of improvement;
- Location within the jurisdiction and/or market area;
- Quality of finishes for units, public areas, etc.;
- Personal property included in the rent (fridge, stove, etc.);
- Level of occupancy;
- Photograph of property;
- Recent renovations;
- Amenities:
 - Parking
 - o Spaces indoor
 - o Spaces outdoor
 - Air conditioning
 - Balconies
 - Pool, tennis courts, sauna, public rooms, etc.

Where there appears to be surplus or excess land, the assessor can note this on the record and review the zoning use by-laws governing the property.

Rents and Financial Information

To collect the appropriate financial information the assessor may send a Request for Information Form to the multi-residential property owner (or the designated contact person). (*Refer to section 6.0 for an example.*) It is recommended that the assessor attempt to obtain income and expense and other financial information including:

- Typical rent by type of unit;
- Total gross rent per annum;
- Rental income from commercial units;
- Income from parking;
 - Typical charge for interior space
 - Typical charge for exterior space
- Other income;
- Income collected to cover operating expenses: heat, power, cable, etc. (may be included in gross rent);
- Total operating expenses;
- Vacancy and collection loss; and
- Property taxes.

Vacancy Rates

Vacancy rates and collection losses can be established by analyzing information received from the assessor's requests for information.

Supporting information can also be obtained from studies completed by government agencies (e.g. CMHC).

Sales Data

Sales data is necessary for determining gross income multipliers and capitalization rates. The assessor can request the following information:

- Property address and legal description;
- Sale price;
- Date of transfer;
- Instrument number;

- Name and address of vendor and purchaser;
- Interests transferred (fee simple or other);
- Financing conditions; and
- Value of chattels.

Data Analysis

For the assessor to gain full value from the data collected, the data should be organized in such a way that meaningful comparisons can be made, and valuation conclusions drawn. By collecting and organizing the data on a number of multi-residential properties it becomes possible to establish the typical performance, characteristics, and valuation parameters to apply in the valuation of other multi-residential properties.

Collecting and tabulating such data also enables the assessor to distinguish between the typical value of real estate components and the actual performance of a specific property. A market value based assessment determined through mass appraisal methods demands the application of a property's typical performance in the marketplace, not its actual performance. As noted in the Valuation Parameters Guide, this requirement is established in the Market Valuation Standard mandated in legislation in Saskatchewan's municipal Acts.

3.2 Classify the Multi-Residential Buildings

The key to a successful market value based assessment analysis in a mass appraisal environment is to classify all multi-residential properties into groups containing common elements. This process is commonly referred to as stratification.

Multi-residential buildings can be stratified based on the types of properties prevalent in the jurisdiction and/or market area. There is no one correct or appropriate classification system.

The objectives of this stratification are to:

- Stratify the multi-residential properties into specific groups so that comparisons are meaningful; and conversely
- Have broad enough definition of these classes so that there are sufficient numbers within the group to establish values.

The elements that can be used to categorize multi-residential groups are:

- Location;
- Type of structure (low-rise; high-rise);
- Quality;
- Size:
 - Size of site;

- Number of units;
- Number of floors;
- Density of development (land/building ratio);
- Age / condition; and
- Facilities/ amenities.

The number of potential groups depends upon the market area being analysed. For example, by considering age and location together as a substitute for quality, and size as similar to type, it may be possible to narrow the field of classes.

Observations

For the most part, the groups of multi-residential property in a jurisdiction and/or market area can be established by observation.

Observations can be made to determine the homogeneity of the properties within a group of multi-residential properties. Typically, depending on the availability of sufficient and reliable market evidence, the following trends may be noted:

- Similar properties may have similar rent levels;
- Similar properties may be of a similar range in size; and
- Similar properties may have comparable locations.

In addition, some statistical measures such as coefficients of dispersion (CODs) can be generated on these and other physical identifying factors to determine the homogeneity of the properties within a multi-residential group.

3.3 Determine Market Rents and Valuation Parameters

From the data collected it should be possible to determine appropriate statistical measures (median, mean, range, etc.) for each group of multi-residential property.

All Multi-Residential Properties

From records, property inspections, and other sources, a number of statistics can be compiled for each group of multi-residential property. An example of the mean is presented in *Figure 1*:

Figure 1: Multi-Residential Data Example

Unit of Comparison	Mean
Number of Units	253
Rooms per Unit	4.81
Unit Size (sq. ft.)	988
Number of Floors	9.5
Year Built	1986
Land / Building Ratio	3.03
Gross Rent per Unit	\$9,234
Total Expenses (% of EGI)	35.1%
Vacancy Rate	2.0%

With more detailed income and expense information it may be possible to further breakdown rents and expenses into various categories the finer the detail, the greater the time requirements in the analysis. (Refer to Section 5.0 for an example.)

When detailed income and expense data is collected, a number of statistics can be generated. An example of the mean is presented in Figure 2:

Figure 2: Multi-Residential Detailed Income and Expense Data Example

Unit of Comparison	Mean
Rent per Unit	\$9,034
Parking Income per Unit	\$153
Other Income per Unit	\$47
Annual Expenses	
Utilities per Unit	\$1,465
Administration per Unit	\$574
Operating Expenses per Unit	\$742
Management per Unit	\$391
Taxes per Unit	\$757

To establish the valuation parameters for each group of multi-residential property, the data collected on each property is analysed, classified and consolidated in the assessor's valuation system. It will be necessary to complete a master list or database of all properties and all sales in order to complete the analysis.

Sales Data

If sufficient sales data is available, statistics as shown in *Figure 1* and *Figure 2* on the units of comparison can be compiled. With smaller sample sizes, the median value may reflect the best measure of central tendency. Also, with a smaller sample size the statistical measures of uniformity such as the coefficient of dispersion will be less robust.

The analysis of sales is an essential part of the multi-residential valuation process.

3.4 Select Valuation Process

Depending upon the income information available, one or both of the following approaches to value can be used:

- Direct capitalization:
 - Sales data
 - Income and expense data
- Gross income multiplier:
 - Sales data
 - Income data

Apply Method to Derive Value

The assessor may apply either the gross income multiplier or direct capitalization method to produce a market value based assessment.

Review of Gross Income Multiplier (GIM) Method

- 1) Establish typical gross income based upon typical rents and income.
- 2) Deduct typical vacancy rate from typical gross income to produce the typical effective gross income (EGI).

- 3) Multiply the typical EGI by the GMI to determine an estimated market value based assessment.

Estimate Typical Gross Income

The assessor will need to determine the typical gross income for a group of multi-residential property. Typical market rents are established through the analysis of all the information collected on the properties contained within a particular group. The typical income figures for a particular group of multi-residential property are entered into the assessor's valuation system. The Multi-Residential Property Value Summary Example shows typical data that is collected. (Refer to Section 5.0) The part of Multi-Residential Property Value Summary dealing with gross income is presented in Figure 3.

Figure 3: Typical Gross Income Calculation Example

Property Address		Class Statistics	
Assessment Roll #		Class	B
Base Date		No. in class	19
Description	Property	Class Average	
Number of units	367	253	
Number of rooms	1,910	1,217	
Rooms per unit	5.20	4.81	
Average unit size (sf)	1,057	988	
Number of floors	12.0	9.5	
Year built	1983	1986	
Land/Bldg density ratio	2.85	3.03	
Annual Income per Unit		Typical Income	
Rent per unit		\$9,034	
Parking		\$153	
Other		\$47	
Gross Income		\$9,234	
Typical Vacancy Rate %		2.0%	
Effective Gross Income		\$9,049	

Estimate Effective Gross Income

Applying the typical vacancy and collection loss allowance to the expected gross income produces the normalized effective gross income for the property. The typical vacancy rate is established by analysis of actual reported vacancy rates or number of vacant units.

Multiply the EGI by the GIM to Produce a Value Estimate

Once the effective gross income has been established, the market value based assessment of the property can be determined by applying the gross income multiplier (GIM). The GIM is determined through analysis of sales of properties displaying similar income, expense and risk characteristics.

$\text{GIM} = \text{Sales Price} \div \text{Typical Gross Annual Income}$

Note: A GIM developed in the analysis of one group of multi-residential property may not be applicable to other groups of multi-residential property.

Figure 4: Gross Income Multiplier Calculation Example

Effective Gross Income	\$3,320,983
GIM	4.75
Value	\$15,774,669

Review of Direct Capitalization Method

The direct capitalization method builds upon the effective gross income established in the gross income multiplier analysis.

- 1) Determine the typical effective gross income.
- 2) Deduct typical expenses to determine typical net operating income (NOI) attributable to the real estate.
- 3) Establish the typical capitalization rate from market sales data.
- 4) Divide the NOI by the capitalization rate to determine the estimated market value based assessment.

Effective Gross Income

After the property details and the typical income and expense information on the appropriate group of multi-residential property are entered in the assessor's valuation system, the effective gross income per unit can be calculated. (*Refer to Figure 3 for an example.*)

Expenses

Similarly, the typical expenses for that group of multi-residential properties would be entered in the assessor's valuation system. (Refer to Figure 5 for an example). Deducting the appropriate typical expenses from the effective gross income produces the net operating income for the property.

Figure 5: Determination of Expenses Example

Property Address	
Assessment Roll #	
Base Date	

Class Statistics	
Class	B
No. in class	19

Description	Property
Number of units	367
Number of rooms	1,910
Rooms per unit	5.20
Average unit size (sf)	1,057
Number of floors	12.0
Year built	1983
Land/Bldg density ratio	2.85

Class Average	
	253
	1,217
	4.81
	988
	9.5
	1986
	3.03

Annual Income per Unit	
Gross Income	
Typical Vacancy Rate %	
Effective Gross Income	

Typical Income	
	\$9,234
	2.0%
	\$9,049

Annual Expenses per Unit	
Utilities	
Administration	
Operating	
Management	
Total Expenses	
Expense as % of EGI	

Typical Expense	
	\$1,465
	\$574
	\$742
	\$391
	\$3,172
	35.1%

Income used in Valuation	\$9,049
No. of units	367
Effective Gross Income	\$3,320,983

Expense Rate used in Valuation	35.1%
Annual Expenses	\$1,165,665
Net Operating Income	\$2,155,318

Capitalize the Net Operating Income into Value

The value of the income stream is determined by capitalizing the net operating income.

$$\text{Value} = \text{Net Operating Income} \div \text{Capitalization Rate}$$

Establishing Capitalization Rates

Sales of Multi-Residential Buildings - Recommended Approach

Turning the equation in the capitalization method around produces the appropriate formula for establishing capitalization rates:

$$\text{Capitalization Rate} = \text{Net Operating income} \div \text{Value (Sale Price)}$$

In the same manner that income and rents are analysed for property valuation purposes, the income and other data should be analysed for multi-residential buildings that have sold as of the base date in order to establish the capitalization rates to be applied to multi-residential buildings.

Other Approaches

If there is insufficient market sales evidence to establish capitalization rates, there are other possible ways such as mortgage-equity or band of investments to derive rates. These other approaches are not suitable for use in mass appraisal valuations in Saskatchewan.

Selection of a Capitalization Rate

Selection of an appropriate capitalization rate is essential for the determination of an equitable market value based assessment for a property. The selection task starts with an analysis of the capitalization rates demonstrated in the sales of similar multi-residential properties.

After a review of the available information, appropriate statistical measures (median, mean, and range, etc.) can be determined for capitalization rates for each class of multi-residential building. From this the typical capitalization rate can be determined for each group of properties being valued.

Capitalization Rate Guidelines

Since the income approach is based upon the present worth of future benefits, when applying capitalization rates it is important to consider the expected future income at the time of the valuation.

There are a number of influences that can affect the capitalization rate to be applied to a multi-residential building. In general, favourable conditions may lower the capitalization rate and raise the value, and negative conditions may raise the capitalization rate and lower the value. Some of the issues to consider when establishing a capitalization rate are:

- Economic conditions;
- Competition and expected changes in competition;
- Location - roads, parking, access;
- Property age and condition; and
- Property design.

Effective Tax Rate

There are two ways to deal with the impact of property taxes when valuing a multi-residential property:

- 1) The first is to deduct the actual property taxes charged as part of the fixed expenses (before the determination of net income). Under this approach, the net income produced is entirely attributable to the rental income stream of the property and the capitalization rate employed in the valuation process is the base rate. The base rate is established as outlined above.
- 2) The second method to account for property taxes is to determine the effective tax rate and add this amount to the base capitalization rate. Under this method property taxes are not included in fixed expenses.

The best way to determine effective tax rates is to apply the taxes against properties that have recently sold.

Effective Tax Rate Calculation Example

Property taxes	\$280,000
Market value based assessment of property	\$10,000,000
Effective tax rate:	$\$280,000 / \$10,000,000 = 2.8\%$

Using this method the effective tax rate of 2.8 percent is added to the base capitalization rate to determine the market value based assessment as presented in the example below:

Direct Capitalization Value Calculation Example

Net income	\$2,155,318
Base capitalization rate	11.5%
Effective tax rate	2.8%
Total capitalization rate	<u>14.3%</u>
Value	\$15,072,153

3.5 Add / Deduct Other Values

There may be certain properties where the entire value of the property is not completely captured by the foregoing application of a given valuation approach. In these situations a lump sum adjustment may be required. For example, a property may have surplus or excess land which is not developed due to current market conditions. This land may be valued separately and added to the market value based assessment for the entire property. A similar lump sum adjustment may also be applied for improvements if warranted.

3.6 Market Value Based Assessment of Property

An example of this procedure is set out in *Section 5.0*.

4.0 *Validation of Results*

The strength of an assessment system rests on two tenets: (1) its ability to produce appropriate market value based assessments, and, (2) its treatment of similar properties in a fair and consistent manner.

To accomplish these ends, the valuation process reflects the views and methods used in the marketplace. The process is applicable to all properties.

There are two areas where the quality of the results can be ensured quickly and efficiently:

- 1) Valuation parameters; and
- 2) Check against sales values.

Valuation Parameters

The assessor's valuation system has valuation parameters that have been researched, collected and analysed by local assessors. Appropriate statistical measures (median, mean, range, etc.) can be determined for each valuation parameter.

When the assessor applies these valuation parameters to all similar properties, then the market value based assessments will be fair and consistent.

Check against Sales Values

To ensure that the market value based assessments developed are in line with the local market, the assessed values will typically be checked against any sales of similar properties that took place. Such sales also have inferences for values of similar properties.

5.0 Multi-Residential Building Valuation Example

The following two pages present a hypothetical example of a market value based assessment analysis of a multi-residential building.

Figure 6: Multi-Residential Data Entry - Example

Example of typical pertinent physical and descriptive data about the property.

Figure 7: Multi-Residential Property Valuation Summary - Example

Example of summary data on typical vacancy rates and the other valuation parameters that would enable the assessor to calculate the appropriate market value based assessment for the property.

Figure 6: Multi-Residential Data Entry – Example

Address		Base Date	
Municipality			
Assessment Roll #		Multi-Res Class B	
Building Data		Unit Types	
Year built	1983	No.	No. of Rooms
Renovations	no	Bachelor/ Studio	750
Sites area (Sf)	136,000	One bedroom	880
Building Area (Sf)	388,020	Two bedroom	1,100
Density (Bldg/Land)	2.85	Three bedroom	1,325
Number of Floors	12.0	Other	
Number of Units	367	Commercial (Sf)	
Parking Indoor spaces	250	Totals	388,020
Parking Outdoor spaces	100	Average number of rooms /unit	5.20
		Average unit size (sf)	1,057
Inspection Notes		Amenities	
Inspection date	12-May-96	Yes/No	Comment
Condition (Fair, Avg, Good)	Avg	Air Conditioning	no
Location (Fair, Avg, Good)	Avg	Carpeting	yes
Quality (Fair, Avg, Good)	Avg	Pool	yes outdoor
Rental Appeal	Avg	Tennis courts	no
		Exercise facilities	no
		Other	no
		Meeting room	yes 1,450 sf
		Laundry	yes coin operated
		Furnished Apt.	no
		Refrigerator	yes
		Stove	yes
		Other Furnishings	no
Location comment		Near centre of town. Part of high density res. neighbourhood	
Site comment		Level & landscaped	
Other comment			
Sales Data		Market sale ? No	
Sales Price		Price @ 100% Interest	
Sales Date		Financing	
Instrument Number		Effect of Financing (+/- %)	
Interests Transferred		Final Price @ Mkt. Financing	
Vendor Name			
Vendor Address			
Purchaser Name			
Purchaser Address			

Figure 7: Multi-Residential Property Valuation Summary - Example

Property Address		Class Statistics	
Assessment Roll #		Class	B
Base Date		No. in class	19
Description	Property	Class Average	
Number of units	367		253
Number of rooms	1,910		1,217
Rooms per unit	5.20		4.81
Average unit size (sf)	1,057		988
Number of floors	12.0		9.5
Year built	1983		1986
Land/Bldg density ratio	2.85		3.03
Annual Income per Unit		Typical Income	
Rent per unit			\$9,034
Parking			\$153
Other			\$47
Gross Income			\$9,234
Typical Vacancy Rate %			2.0%
Effective Gross Income			\$9,049
Annual Expenses per Unit		Typical Expense	
Utilities			\$1,465
Administration			\$574
Operating			\$742
Management			\$391
Total Expenses			\$3,172
Expense as % of EGI			35.1%
Income used in Valuation		Valuation Parameters Class B	
	\$9,049	GIM	4.75
No. of units	367	Base Cap Rate	11.50%
Effective Gross Income	\$3,320,983	Effective Tax Rate	2.80%
		Overall Cap (OAC)	14.30%
Expense Rate used in Valuation	35.1%		
Annual Expenses	\$1,165,665		
Net Operating Income	\$2,155,318		
Value by Gross Income Multiplier		By Direct Capitalization of NOI	
Effective Gross Income	\$3,320,983	Net Income	\$2,155,318
GIM	4.75	Cap Rate	14.30%
Value sub-total	\$15,774,669	Value Estimate	\$15,072,153
Other Value	\$0		
Market Value Based Assessment Using Gross Income Multiplier	\$15,774,000		

6.0 Appendices

A. Multi-Residential Valuation Parameters Example

	Group E1		Group E2		Group E3		Group D		Group C		Group B		Group A	
Profile Summary	Low Density		Low Density		Low Density		Med. Density		Med. Density		High Density		High Density	
	Older, Fair		Newer, Avg		Newer, Good		Fair-Avg		Good		Fair-Avg.		Good	
Parameter	Mean	Range +/-	Mean	Range +/-	Mean	Range +/-	Mean	Range +/-	Mean	Range +/-	Mean	Range +/-	Mean	Range +/-
Typical Rent Per Month														
Bachelor/ Studio	\$460	\$21	\$525	\$21	\$655	\$39	\$505	\$25	\$575	\$32	\$500	\$31	\$622	\$30
One Bedroom	\$552	\$29	\$720	\$28	\$738	\$32	\$685	\$27	\$722	\$34	\$689	\$29	\$741	\$41
Two Bedroom	\$691	\$35	\$780	\$22	\$804	\$27	\$772	\$22	\$830	\$26	\$743	\$48	\$814	\$45
Three Bedroom			\$921	\$28	\$983	\$22	\$842	\$31	\$960	\$40	\$850	\$45	\$911	\$48
Basement	\$389	\$25					\$420	\$27			\$415	\$38		
Vacancy and Collection Allowance	3.5%		2.5%		2.0%		3.0%		2.0%		2.0%		2.0%	
Expenses as a % of Gross Income	42.0%	5.3%	40.3%		39.6%	3.2%	41.1%	2.9%	39.5%	3.3%	37.7%	2.4%	36.9%	2.8%
Gross Income Multiplier	5.80	0.90			5.95	0.38	5.25	0.36			4.75	0.29	4.60	0.31
Capitalization Rates (Base)	14.1%	2.2%	13.6%		12.7%	1.3%	13.1%	2.0%	12.1%		11.5%	1.9%	11.0%	1.6%

B. Request for Information Form to Multi-Residential Property Owners Example

THE INFORMATION REQUESTED ON THIS FORM CAN BE SENT IN YOUR OWN FORMAT (HARD COPY)
TO BE FILLED OUT IN CASES WHERE INCOME and EXPENSE STATEMENTS ARE NOT AVAILABLE

Building Name:	
Address:	
Assessment Roll #:	

Detailed Income as of:

% Vacancy in Year

Type of Income	No. of Units	Monthly Income	Annual Income
Bachelor/ Studio			
One bedroom rent			
Two bedroom rent			
Three bedroom rent			
Other rent:			
Commercial rent			
Parking indoor			
Parking outdoor			
Laundromat			
Vending machines			
Operating recoveries			
Other:			
Total Income			

Included in Rent	Circle One	
Heat	yes	no
Electricity	yes	no
Cable	yes	no
Furniture	yes	no
Refrigerator/Stove	yes	no
Water/Sewage	yes	no
Parking	yes	no
Other:	yes	no

Building Amenities	Circle One	
Air conditioning	yes	no
Carpeting	yes	no
Laundry room	yes	no
Pool	yes	no
Tennis court	yes	no
Meeting room	yes	no
Recreation centre	yes	no

Expense Analysis	Annual Expense
Heat	
Electricity	
Water/sewage	
Cable	
General Office	
Advertising	
Leasing	
Repairs	
Maintenance	
Waste & Snow removal	
Security	
Insurance	
Elevator	
Supplies	
Other:	
Property Taxes	
Management	
Total Expense	

Total Annual Income	<i>Year</i>	Current Year
Total Annual Expense		
Net Annual Income		

This questionnaire was completed by: _____

Title: _____

Date: _____

Tel: _____

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