

# Multi-Family Methodology

- Residential & Commercial Split Use
- Triplexes & Fourplexes
- Apartment Suites of 5 or Greater
- Senior Complexes

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2021 Assessment Year

ASSESSMENT DEPARTMENT

March 2022

## Scope Statement

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This document is intended to be an introduction to the valuation process used to determine assessed values for multi-family properties in the City of Medicine Hat. For more detail regarding to a specific property, the property owner may contact an assessor with the City of Medicine Hat at 403-529-8114. Alternatively, the property owner can visit the website, [www.medicinehat.ca/assessmentforms](http://www.medicinehat.ca/assessmentforms) to complete an MGA s.299 or 300 request for more information and/or a Letter of Authorization form.

Property assessments in the City of Medicine Hat reflect the market value of the fee simple estate for property as of July 1, 2021 (reflecting the condition and characteristics of the property as of December 31, 2021) as required by the *Municipal Government Act* as enacted by the Government of Alberta.

For this purpose, market value is defined by the *Municipal Government Act*:

*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;*

Market value, as defined by the Appraisal Institute of Canada and as detailed in the Canadian Uniform Standards of Professional Appraisal Practice as:

*The most probable price, as of a specified date, in terms of cash, or in terms equivalent to cash, or in other precisely revealed terms, for which the specified property rights should sell after reasonable exposure in a competitive market under all conditions requisite to a fair sale, with the buyer and seller each acting prudently, knowledgeably, and for self-interest, and assuming that neither is under undue duress.<sup>1</sup>*

Market value, is also defined by the International Association of Assessing Officers (IAAO) as:

*The most probable price (in terms of money) which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby: The buyer and seller are typically motivated. Both parties are well informed or well advised, and acting in what they consider their best interests. A reasonable time is allowed for exposure in the open market. Payment is made in terms of cash or in terms of financial arrangements comparable thereto. The price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.<sup>2</sup>*

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<sup>1</sup> AI Canada, Appraisal Journal. Winter 2020

<sup>2</sup> IAAO. *Glossary for Property Appraisal and Assessment*. Page 101.  
[http://www.iaao.org/media/Pubs/IAAO\\_GLOSSARY.pdf](http://www.iaao.org/media/Pubs/IAAO_GLOSSARY.pdf).

The fee simple ownership is the most complete form of ownership. The Courts and the IAAO define it as:

*Fee simple title indicates ownership that is absolute and subject to no limitation other than eminent domain, police power, escheat, and taxation.*<sup>3</sup>

The Appraisal Institute of Canada has similar definitions.

Improved multi-family properties in the city are primarily valued using the income approach to value. This valuation approach capitalizes a property's stabilized, market typical, net operating income to come up with an estimate of market value. The valuation formula for properties assessed using the income approach is:

$$\text{Market Value} = \frac{\text{Net Operating Income}}{\text{Overall Capitalization Rate}}$$

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<sup>3</sup> IAAO. *Glossary for Property Appraisal and Assessment*. Page 67.  
[http://www.iaao.org/media/Pubs/IAAO\\_GLOSSARY.pdf](http://www.iaao.org/media/Pubs/IAAO_GLOSSARY.pdf).

# Mass Appraisal

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Primarily, property assessment establishes the base for fair and equitable distribution of the tax burden. The individual assessments determine each property's share of the tax base. It is a fundamental principle of market value property taxation that properties with a similar market value have similar assessments.

The Alberta assessment and taxation system is based on the laws outlined in the *Municipal Government Act*, RSA 2000, Chapter M-26 [MGA], and all associated regulations, including, for example, *Matters Relating to Assessment and Taxation Regulation*, Alberta Regulation 203/2017 [MRAT].

Valuation procedures have been developed to enable assessors to prepare *market value* assessments, reflecting typical market conditions and bearing equitable relationships between similar properties. These procedures are encompassed in the practice of *mass appraisal*. The *Municipal Government Act* directs assessors to apply the valuation standards in a fair and equitable manner; the *Matters Relating to Assessment and Taxation Regulation* states that property assessments are to be prepared using *mass appraisal* to predict accurate and equitable market values.

A property assessment is:

- An estimate of the property's market value on July 1, of the assessment year;
- 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, of the assessment year;
- Prepared assuming typical market conditions on the open market by a willing seller to a willing buyer.

Mass appraisal requires that:

- Properties are stratified into groups of comparable properties;
- Common property data be identified in each group;
- A uniform valuation method utilizing typical market information determined for each group will be applied to the characteristics of each property;
- Statistical testing must be performed to confirm quality control.



Capitalization rates are determined from the sales of properties in the municipality utilizing the typical rental, vacancy and expense rates that were determined in the studies conducted in the municipality.

## **Multi-Family Classifications**

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Multi-Family properties are properties with three or more residential dwelling units located within the same building or on the same registered parcel. They can be low rise, high rise, town-house style, back to back or side by side structures. The split-use properties are residences located beside or above the commercial enterprises. Multi-Family classification also includes senior complexes. The following is a list of the variables that affect the applied typical market rates for multi-family properties:

- **Effective Year Built:** This is an adjusted age of the property accounting for both the original build year of the building(s) and any significant renovations or additions.
- **Number of Bedrooms:** Generally, the greater the number of bedrooms per unit the more income may be commanded. These properties will be valued higher on the open market, all other factors being equal.

Variables are classified into three income qualities based on the reported income of the annual Assessment Request for Information. The income qualities are:

- **Above average** – the rental income ranges above the average rent range in the market. Typically, newer properties, properties with significant renovations, or properties with strong cash flow above the dominant market cash flow are classified in this income quality. The typical rate in the above average range is used for the assessed rental rate.
- **Average** – rental income is within the dominant market range. The typical rate in the average range is used for the assessed rental rate.
- **Below average** – the rental income ranges below the average rent range in the market. Typically, older properties or properties that may have deferred maintenance. Rental income is enough to cover expenses and maintain a positive net operating income. The typical rate in the below average range is used for the assessed rental rate.

## Typical Assessed Rental Rate Quality Ranges

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### Residential & Commercial Split Use

Type	Quality G (Below Average)	Quality F (Average)	Quality E (Above Average)
Bachelor	-	\$ 600 - \$ 725	-
1 Bedroom	\$ 600 - \$ 700	\$ 725 - \$ 800	-
2 Bedroom	\$ 675 - \$ 725	\$ 750 - \$ 850	\$ 875 - \$ 975
3 Bedroom	\$ 850 - \$ 975	\$ 1,000 - \$ 1,100	\$ 1,125 - \$ 1,300
4+ Bedroom	-	\$ 1,100 - \$ 1,150	-

### Triplexes and Fourplexes

Type	Quality G (Below Average)	Quality F (Average)	Quality E (Above Average)
Bachelor	-	\$ 625 - \$ 725	-
1 Bedroom	\$ 600 - \$ 700	\$ 725 - \$ 800	-
2 Bedroom	\$ 675 - \$ 725	\$ 750 - \$ 850	\$ 875 - \$ 975
3 Bedroom	\$ 850 - \$ 975	\$ 1,000 - \$ 1,100	\$ 1,125 - \$ 1,300
4+ Bedroom	-	\$ 1,100 - \$ 1,300	-

### Apartment Suites of Five or Greater

Type	Quality APT C (Below Average)	Quality APT B (Average)	Quality APT A (Above Average)
Bachelor	-	\$ 650 - \$ 750	-
1 Bedroom	\$ 625 - \$ 775	\$ 800 - \$ 975	\$ 1,000 - \$ 1,075
2 Bedroom	\$ 700 - \$ 825	\$ 850 - \$ 1,000	\$ 1,025 - \$ 1,150
3 Bedroom	-	\$ 975 - \$ 1,150	\$ 1,175 - \$ 1,350
4+ Bedroom	-	\$ 1,050 - \$ 1,325	-

## Senior Complexes

Type	Quality C (Below Average)	Quality B (Average)	Quality A (Above Average)
Bachelor	\$ 725 - \$825	\$ 850 - \$ 975	\$ 1,000 - \$ 1,050
1 Bedroom	\$ 775 - \$ 900	\$ 925 - \$1,050	\$ 1,075 - \$1,175
2 Bedroom	\$ 850 - \$ 1,050	\$ 1,075 - \$ 1,125	-

## Vacancy Rate Ranges

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Type	Rate
Residential & Commercial Split Use	2.0%
Triplexes & Fourplexes	2.0%
Apartment Suites of 5 or Greater	8.0%
Senior Complexes	4.0%

## Expense Rate Ranges

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Type	Rate
Residential & Commercial Split Use	33% to 38%
Triplexes & Fourplexes	33% to 48%
Apartment Suites of 5 or Greater	48.0%
Senior Complexes	48.0%

## Structural Allowance

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Type	Rate
Residential & Commercial Split Use	2.0% to 4.0%
Triplexes & Fourplexes	4.0 %
Apartment Suites of 5 or Greater	2.0 %
Senior Complexes	4.0 %



## Capitalization (Cap) Rate Model

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The indicated capitalization rate for sold properties was established using the following formula:

$$\text{Overall Capitalization Rate} = \frac{\text{Net Operating Income}}{\text{Adjusted Sale Price}}$$

Capitalization rates are a tool used in appraisal theory to convert future income into present worth. (Income next year is worth less this year than income from this year.) According to appraisal theory, capitalization rates fundamentally reflect the following factors:

- The degree of perceived risk
- Market expectations regarding future inflation
- The prospective rates of return for alternative investments
- The rates of return earned by comparable properties in the past
- The prevailing tax laws

The assessed overall capitalization rates are calculated using qualified improved sales that occurred from July 1<sup>st</sup>, 2018, to June 30<sup>th</sup>, 2021. Typical rent per bedroom is multiplied by the number of units and stratified by effective age to determine the potential operating income. The vacancy allowance is then subtracted from potential gross income to derive an effective operating income. Structural allowances and market expenses are subtracted from the effective operating income to derive the net operating income. The typical net operating income is divided by the time adjusted sale price to derive the indicated overall capitalization rate.

Capitalization rates were modelled separately for triplex and fourplex properties and large apartments. The assessed overall capitalization rate is dependent on the effective year built. All else being equal, an effectively older property will receive a higher cap rate. Capitalization rates are categorized into three qualities with each quality applied to determine the assessed value. Capitalization rate qualities do not always correspond to the cash flow qualities. A capitalization rate quality may have strong income stream with a higher capitalization rate to reflect the comparable properties sold on the open market.

A property may have site-specific issues such as poor access, poor or excellent condition, poor or excellent location (within a neighborhood), functional,

economic, or locational obsolescence. These issues affect the cash flow quality of the property compared to the typical cash flow of similar properties the neighborhood. The difference between the actual and typical cash flows is calculated and applied as an adjustment to the overall capitalization rate to recognize the site-specific issue.

The overall capitalization rate applied to apartment suites of five and greater accompanying with commercial units are based on the typical cash flow of the component to the property. The capitalization rate of that component is applied to the total net operating income of the entire property to estimate the value of the property.

## Capitalization Rates

Type	Quality G	Quality F	Quality E
<b>Residential &amp; Commercial Split Use (≤ 4 Units)</b>	<b>6.00%</b>	<b>5.00%</b>	<b>4.50%</b>
<b>Triplexes &amp; Fourplexes</b>	<b>6.00%</b>	<b>5.00%</b>	<b>4.50%</b>

Type	Quality APT C	Quality APT B	Quality APT A
<b>Residential &amp; Commercial Split Use (+ 5 Units &amp; Greater)</b>	<b>5.50%</b>	<b>5.25%</b>	<b>5.00%</b>
<b>Apartment Suites of 5 &amp; Greater</b>	<b>5.50%</b>	<b>5.25%</b>	<b>5.00%</b>

Type	Quality C	Quality B	Quality A
<b>Senior Complexes</b>	<b>5.50%</b>	<b>5.25%</b>	<b>5.00%</b>

## Valid Sales List

### Triplexes & Fourplexes

ROLL	ADDRESS	ADJUSTED SALE PRICE	SALEDATE
110827	42 COLLIER ROAD SE	\$ 418,300	07/10/2018
116327	250 2 STREET NE	\$ 433,400	08/23/2018
101304	210 19 STREET NE	\$ 466,800	01/16/2019
117298	82 COLLIER ROAD SE	\$ 522,300	05/07/2019
113289	807 4 STREET SE	\$ 522,300	05/09/2019
114157	2 2 STREET SW	\$ 418,900	08/16/2019
110195	1749 14 AVENUE SE	\$ 437,300	10/23/2019
110995	523D MAPLE AVENUE SE	\$ 426,600	10/31/2019
117297	84 COLLIER ROAD SE	\$ 544,300	12/12/2019
112729	38 2 STREET NE	\$ 269,300	05/01/2020
117079	1014 BRAEMAR STREET SE	\$ 319,700	07/24/2020
111310	2076 HAWTHORNE AVENUE NE	\$ 631,900	10/21/2020
119401	1214 DOMINION STREET SE	\$ 330,600	10/27/2020
119471	1035 MILL STREET SE	\$ 602,400	01/20/2021
114020	209 2 STREET SW	\$ 330,000	03/17/2021
119552	840 SMELTER AVENUE SE	\$ 421,100	03/27/2021
111103	106 3 STREET SE	\$ 315,200	04/24/2021
110747	1 CARSWELL ROAD SE	\$ 486,200	05/31/2021
132753	4933 SOUTHLANDS DRIVE SE	\$ 836,000	06/07/2021
119361	1126 BRIDGE STREET SE	\$ 788,400	06/23/2021

## Valid Sales List

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### Apartment Suites of Five or Greater

ROLL	ADDRESS	ADJUSTED SALE PRICE	SALEDATE
167718	114A 3 STREET NE	\$ 831,300	11/01/2018
115456	840 3 AVENUE SE	\$ 493,600	11/09/2018
101250	358 CAMBRIDGE STREET SE	\$ 631,800	11/20/2018
119009	739 5 AVENUE SE	\$ 565,800	01/29/2019
115872	733 1 STREET SW	\$ 561,400	09/26/2019
119850	38 DIVISION AVENUE SW	\$ 510,900	10/21/2020
111507	385 4 STREET SE	\$ 711,300	03/26/2021