

2023

ASSESSMENT METHODOLOGY

MULTI-RESIDENTIAL MANUFACTURED HOME PARK

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.

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Scope

This guide explains how Manufactured Home Park land properties are valued for assessment purposes. The guide is intended as a tool and complements the assessor's judgment in the valuation process. **Valuation Date** refers to the legislated date of July 1, 2022.

Introduction

Property assessments in the City of Edmonton are prepared in accordance with the requirements of the Municipal Government Act, R.S.A. 2000, c. M-26, (hereinafter "MGA") and the *Matters Relating to Assessment and Taxation Regulation, 2018*, Alta Reg 203/17, (hereinafter "MRAT"). The MRAT regulation establishes the valuation standard to be used, defines the procedures to be applied, and proposes objectives for the quality to be achieved in the preparation of assessments. The legislation requires the municipality to prepare assessments that represent market value by application of the mass appraisal process. All assessments are expected to meet quality standards prescribed by the province in the MRAT regulation.

Property assessments represent:

- an estimate of the value;
- of the fee simple estate in the property;
- as the property existed on December 31, 2022;
- reflecting typical market conditions;
- as if the property had been sold on July 1, 2022;
- on the open market;
- from a willing seller to a willing buyer.

The assessment is a prediction of the value that would result when those specific, defined conditions are met.

The legislation requires the City of Edmonton to assess the fee simple estate.

"Fee simple interest [is] absolute ownership unencumbered by any other interest or estate... leased fee interest [is] the ownership interest held by the lessor, which includes the right to the contract rent specified in the lease plus the reversionary right when the lease expires... leasehold interest [is] the interest held by the lessee (the tenant or renter) through a lease conveying the rights of use and occupancy for a stated term under certain conditions."

*Appraisal Institute of Canada, **The Appraisal of Real Estate Third Canadian Edition**,
Vancouver, Canada, 2010, page 6.4*

Both *market value* and *property* along with additional terms are defined in the *MGA* and *MRAT* :

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(k) "**regulated property**" means

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

MRAT s.1(k)

s.9(1) the **valuation standard** for the land and improvements is market value unless subsection (2)... applies

MRAT s.9(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.5 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.5

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.6 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.6

s.1(g) "**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(g)

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

31(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.31(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 Model

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

- s31 (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.31 (a), (b) and (d)

- s.33 Information prescribed... does not include coefficients

MRAT, s.33(3)

Valuation Model

- variables are created from property characteristics
- analysis of how variables affect 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 (dependant variable) from known values of property characteristics (independent variables)”

Property Appraisal and Assessment Administration, pg. 653

Property Groups

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

use: the purpose or activities for which a piece of land or its buildings are designed, arranged, developed or intended, or for which it is occupied or maintained..

Zoning Bylaw No. 12800, 207, s. 6.117

Multi Residential

Multi-Residential properties consist of four or more dwelling units, on one parcel of land, each having one or more rooms accommodating sitting, sleeping, sanitary facilities, and, typically, a kitchen. Apartment buildings, fourplexes, and some townhouses are all common forms of multi-residential properties.

Sub-Group

Some property groups have sub-groups based on property characteristics. This guide is for the Manufactured Home Parks sub-group.

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 Manufactured Home Park properties in the City of Edmonton.

For information on the valuation and assessment of Manufactured Homes located within the Manufactured Home Park, please refer to the 2023 Residential Improved Properties (1 to 3 units) brief for further information.

Manufactured home

A manufactured home is a single-family home, designed and constructed to be transported on its own chassis and capable of being moved to a new location. It may be placed on a foundation pad and may be covered by a skirt

Approaches to Value

The approaches to determine market value are the direct comparison, income, and cost approaches.

Direct Comparison 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.

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 Manufactured Home Parks is derived by multiplying all **Manufactured Home Stalls** on the property by the current market rent for those stalls.

$$\begin{array}{c} \text{Mobile Home} \\ \text{Stalls} \end{array} \times \begin{array}{c} \text{Market Rent for} \\ \text{Stalls} \end{array} = \begin{array}{c} \text{PGI} \end{array}$$

Vacancy & Collection Loss 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. These typical allowances are determined by analyzing reported vacancies and collection losses from the owner's annual financial statements.

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

$$\text{PGI} - \text{Vacancy \& Collection Loss Allowance} = \text{EGI}$$

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 Manufactured 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 at 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) Technique

The City has used the DCR technique for analyzing Manufactured Home Park Land. This technique, assuming typical mortgage terms, derives a capitalization rate by analyzing various factors, including mortgage rates [R_M], the typical loan-to-value ratio [M], and expected returns on investment [DCR].

As per IAAO:

- R_M - the percentage of the original loan [principal and interest] that is required to be paid annually;
- M - relationship between loan amount and value of the property;
- DCR - relationship between NOI and total annual debt service;
- R_o - overall capitalization rate.

The method of determining an overall capitalization rate to apply is summarized in "The Appraisal of Real Estate, 2nd 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:

$$R_o = DCR * R_M * M$$

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.6.123 **zone:** a specific group of listed Uses and Development Regulations which regulate the Use and Development of land within specific geographic areas of the City...

Zoning Bylaw No. 12800, 2017, s. 6.123

Residential land use zones vary in part due to density.

s.6.24 **density:** when used in reference to Residential and Residential-Related development, the number of Dwellings on a Site expressed as Dwelling per hectare.

Zoning Bylaw No. 12800, 2017, s. 6.24

A multi residential zone summary is in the appendix.

Not all properties conform 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 nonconforming use or nonconforming building, the development permit continues in effect in spite of the coming into force of the bylaw.

MGA, s.643(1)

Variables

Below is the list of variables that affect the assessment value for 2023.

Manufactured Home Stalls	Potential Gross Income	Capitalization Rate	Class	Commercial Component
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Manufactured Home Stalls: This is the total number of stalls that are available for rent in the Manufactured Home Park.

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

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

- **A Class** manufactured 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** manufactured 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** manufactured 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:

Class	Rent/Stall	Cap Rate
Class A	\$ 700	7.50%
Class B	\$ 670	7.50%
Class C	\$ 620	8.00%

*Vacancy & Collection Loss is stabilized at 4.5% and expenses at 40% for all manufactured home park land in Edmonton.

Commercial Component: The commercial component, such as a retail convenience store, is valued on the Income Approach to Value. This component is valued separately and added to the manufactured home land value, using the same vacancy and capitalization rate for the property as a whole. If there are any gas stations or car wash buildings located in the mobile home park, these

may be valued on the cost approach and added to the manufactured home land value. The assessment detail reports will identify if a commercial component is being added and will also identify what approach was utilized.

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)

Manufactured Home: For purposes of this methodology guide, the term Manufactured Home includes “manufactured homes” and “mobile homes”, as defined in ss. 284(1)(m) and (n.1) of the *Municipal Government Act*.

Amenities: some manufactured 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. These amenities may be valued independently based upon the nature of the amenity.

For more information on other approaches used, please refer to the City of Edmonton’s Non-Residential Properties Methodology Guides found on the City website, www.edmonton.ca, under “Home & Neighbourhood > Assessment of Properties > Reference Materials.

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.

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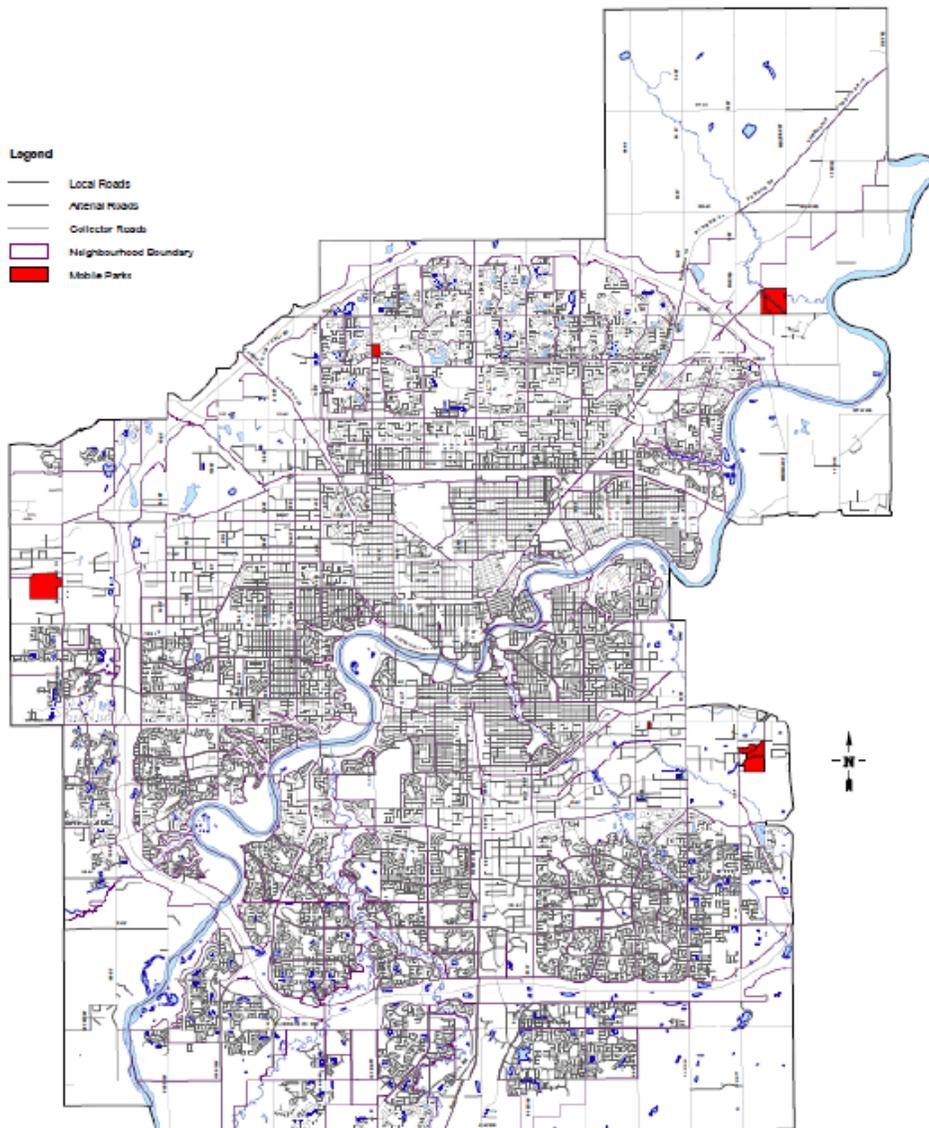
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Appendix

Map



Mobile Home Park Map



Map compiled by: The Application Team
Assessment and Planning, City of
Edmonton, Effective: January 2017

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Assessment Detail Report

2023 Property Assessment Detail Report
Assessment and Taxation



Mobile Home Parks			
2023 Land Assessment			
Roll Number	1111111		Valuation Date
Mobile Home Park Name	Sample Park		1-Jul-22
Address	12345 50 Avenue	Class	B
	Stalls	Average Rent Per Month	Stall Rent Per Month
	100	\$670	\$67,000
Potential Gross Income			\$804,000
Less:			
Vacancy & Collection Loss		4.50%	\$36,180
Effective Gross Income			\$767,820
Less:			
Expenses		40.00%	\$307,128
Net Operating Income			\$460,692
Stabilized Value			
Capitalization Rate			7.50%
Value Sub-total			\$6,142,560
Total Land Assessment			\$6,142,500
Comments			

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Zone Summary

Residential	
RA7	Low Rise Apartment Zone (s.210) provides for low rise apartment buildings
RA8	Medium Rise Apartment Zone (s.220) provides for medium rise apartment buildings
RA9	High Rise Apartment Zone (s.230) provides for high rise apartment buildings
RR	Rural Residential Zone (s.240) 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	Residential Mixed Use Zone (s.910.10) 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	Mobile Home Zone (s.250) 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) = 2.54 centimetres (cm)	1 square foot (sqft) = 0.09290 square metre (m ²)
1 foot (ft) = 0.3048 metres (m)	1 acre (ac) = 4,046.86 square metre (m ²)
Imperial Conversions	1 acre (ac) = 0.40469 hectares (ha)
1 acre (ac) = 43,560 square feet (sqft)	Metric Conversions
1 square mile = 640 acres (ac)	1 square kilometer (sq km) = 100 hectares (ha)
1 section = 640 acres (ac)	1 hectare (ha) = 10,000 square metres (m ²)