

**BROOKS  
ASSESSMENT REVIEW BOARD  
DECISION WITH REASONS**

In the matter of the complaint against the property assessment as provided by the *Municipal Government Act*, Chapter M-26, Section 460, Revised Statutes of Alberta 2000 (the Act).

**between:**

***Brinn Bevelopments Ltd. (as represented by AltusGroup), COMPLAINANT***

**and**

***The City Of Brooks, RESPONDENT***

**before:**

***Board Chair, J. Zezulka  
Board Member, S. Robertson  
Board Member, B. Keith***

This is a complaint to the Brooks Regional Assessment Review Board in respect of a property assessment prepared by the Assessor for The City of Brooks and entered in the 2012 Assessment Roll as follows:

**ROLL NUMBER:           0430857000**

**LOCATION ADDRESS: 1239 - 2 Street West  
Brooks, Alberta**

**ASSESSMENT:           \$2,235,410**

This complaint was heard on the 28th day of November, 2012, in the City of Brooks.

Appeared on behalf of the Complainant:

- *D. Betker*

Appeared on behalf of the Respondent:

- *C. Megaw, of Benchmark Assessment Consultants*

**Board's Decision in Respect of Procedural or Jurisdictional Matters:**

- (1) There were no procedural or jurisdictional matters raised by either party.

**Property Description:**

- (2) The subject is the Heritage Inn Hotel and Suites, situated on 2 Street West, which is the major commercial artery in Brooks. The physical plant is a three storey, limited service hotel, constructed in 2004. Hotel amenities include an indoor swimming pool and hot tub, meeting room, business centre, fitness centre, and continental breakfast. The land area is one acre.

**Issues / Appeal Objectives**

- (3) The property is currently being assessed using the income approach. The Complainant does not dispute the valuation method. However, the Complainant argues that the Effective Gross Income applied by the Respondent is incorrect, and further, the Respondent's analysis of the income is faulty, resulting in an assessment that does not properly reflect market value, and is not equitable with similar properties.

**Complainant's Requested Value:** \$1,807,000

**Evidence / Argument**

- (4) In preparing the assessment, the Respondent derived a potential gross rent revenue, or potential gross income, by projecting the advertised nightly room rate from the subject over a full fiscal year. The Respondent then proceeded to project other inputs through the use of stabilized amounts derived from industry standards and norms. This procedure, the Respondent argues, is in keeping with the principles of mass appraisal, as set out in Part I, section 2 of the Matters Relating to Assessment and Taxation Regulation.

- (5) The Complainant used a similar method of income capitalization to derive an indication of value and subsequent requested assessment. However, the Complainant relied on actual income statements from the subject to derive a net operating income which was then capitalized to derive the indicated value. The Effective Gross Income adopted by the Complainant is a stabilized amount based on three years of actual income statements.

(6) Summarized, the two differing income inputs are as follows;

	<u>Respondent</u>	<u>Complainant</u>
Number of Rooms	61	61
Average Daily Rate	\$110	\$110
Potential Gross revenue	\$2,451,096	N/A.
Vacancy Allowance (62%)	\$1,519,680	N/A.
Effective Gross Income	\$931,416	\$878,356 (based on three years stabilized)
Food, telephone & other	N/A.	\$28,169 (stabilized)
Total income	\$931,416	\$906,525
Expenses	\$558,850	\$639,416
Reserves / F.F. & E.	\$137,848	\$77,379
<i>(F.F. &amp; E. = Furniture, Fixtures, and Equipment)</i>		
Assessable Net Income	\$234,718	\$189,730

(7) The room occupancy level adopted by the Respondent calculates to 38.0 per cent. The Complainant submits that the actual three year stabilized occupancy level for the subject is 36.14 per cent.

(8) The Complainant submits that the effective gross income used by the Respondent is higher than any level achieved by the subject in the past three years, and that a stabilized effective gross income based on actual performance would result in a more realistic indication of market value.

(9) Both parties used a capitalization rate of 10.50 per cent.

### **Board's Findings**

(10) In the Municipal Government Act, "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. Implicit in this definition is that both parties are fully informed.

Part I, section 2 of the Matters Relating to Assessment and Taxation Regulation, states;

- "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"

(11) Whether an appraisal is for site specific purpose, or in a mass appraisal atmosphere, one of the principles of sound appraisal practice dictates that the valuation must be based of factual data, and not something speculative. Otherwise, although the appraisal might reflect typical market conditions for similar properties, the appraisal could not be capable of reflecting the value of the fee simple estate in a specific property. Even in a mass appraisal context, the value calculations must be based on a factual "starting point", for each property.

(12) Similarly, it is unlikely that an informed purchaser would base an investment decision on assumptions that have no foundation in fact.

(13) For those reasons, this Board cannot accept the projected gross rent revenue as projected by the Respondent, but rather adopts the Complainant's revenue estimate.

(14) Having said that, it is also a market fact that differing accounting practices between various owners and companies, as well as different reporting practises, can and often do result in substantial differences in expense estimates for similar properties and business operations. Even in a site specific appraisal, it is not unusual to rely on industry norms in stabilizing expenses for an operation or business. This Board accepts the Complainant's methodology as being the preferable of the two.

**Board's Decision**

(15) The Board accepts the projected gross revenue of \$2,451,096, as determined by the Respondent.

(16) The occupancy rate is reduced from 38 to 36 per cent, which more accurately reflects actual performance over the past three years.

(17) Other income of \$28,169, including telephone, food and "other", as determined by the Complainant, is added to the effective gross room revenue.

(18) Normalized expense as estimated by the Respondent at \$137,848 are deducted.

(19) The capitalization rate of 10.5 per cent is adopted.

(20) The assessment calculations are amended to reflect the Board's findings, and the assessment is reduced to \$2,155,981.

**DATED AT THE CITY OF BROOKS THIS 18th DAY OF December, 2012.**



**Jerry Zezulka**  
**Presiding Officer**

**APPENDIX "A"**

**DOCUMENTS PRESENTED AT THE HEARING  
AND CONSIDERED BY THE BOARD:**

<b>NO.</b>	<b>ITEM</b>
1.	C1 Evidence Submission of the Complainant
2.	C2 Rebuttal Submission of the Complainant
3.	R1 Evidence Submission of the Respondent

*An appeal may be made to the Court of Queen's Bench on a question of law or jurisdiction with respect to a decision of an assessment review board.*

*Any of the following may appeal the decision of an assessment review board:*

- (a) the complainant;*
- (b) an assessed person, other than the complainant, who is affected by the decision;*
- (c) the municipality, if the decision being appealed relates to property that is within the boundaries of that municipality;*
- (d) the assessor for a municipality referred to in clause (c).*

*An application for leave to appeal must be filed with the Court of Queen's Bench within 30 days after the persons notified of the hearing receive the decision, and notice of the application for leave to appeal must be given to*

- (a) the assessment review board, and*
- (b) any other persons as the judge directs.*

**For MGB Administrative Use Only**

<i>Decision No.</i>		<i>Roll No. 0430857000</i>		
<u><i>Subject</i></u>	<u><i>Type</i></u>	<u><i>Issue</i></u>	<u><i>Detail</i></u>	<u><i>Issue</i></u>
CARB	Hotel	Income / Equity	Gross Income	