Calgary 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:

Calgary Hoteliers Inc.. (as represented by AEC Property Tax Solutions) COMPLAINANT

and

The City Of Calgary, RESPONDENT

before:

Board Chair; J. Zezulka
Board Member; J. Pratt
Board Member; K. Farn

This is a complaint to the Calgary Assessment Review Board in respect of a property assessment prepared by the Assessor of The City of Calgary and entered in the 2013 Assessment Roll as follows:

ROLL NUMBER: 067072603

LOCATION ADDRESS: 708 - 8 Avenue SW

FILE NUMBER: 71085

ASSESSMENT: $13,860,000

This complaint was heard on 17 day of July, 2013 at the office of the Assessment Review Board located at Floor Number 4, 1212 – 31 Avenue NE, Calgary, Alberta, Boardroom 1.

Appeared on behalf of the Complainant:

- *B. Ryan*

Appeared on behalf of the Respondent:

- *D. Grandbois*

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 property is the Ramada Inn, a 201 room hotel located in downtown Calgary. The hotel is categorized as a full service core hotel. The Ramada operates under a chain franchise agreement. The building contains most of the amenities typically found in a full service hotel. However, the building was built in 1963, and few, if any, efforts have been made to upgrade the facility. The exercise facilities are limited, and the swimming pool is located outside, on the building's roof. Other facilities have not been upgraded and are showing signs of obsolescence.

Issues / Appeal Objectives

(3) The property is currently assessed using the income approach to value, which is the method used for all hotel properties in the City. The Complainant does not dispute the valuation method. However, the City's income calculations are based on stabilised income, and normalized expenses. It is the Complainant's position that the subject's financial performance is not atypical, and therefore the use of stabilized income and stabilized expenses derived from actual financial statements produces a more accurate reflection of value.

Complainant's Requested Value:

(4) $9,800,000

Board's Decision:

(5) The assessment is reduced to $12,480,000.

Legislative Authority, Requirements and Considerations:

(6) This Board derives its authority from section 460.1(2) of the Municipal Government Act, being Chapter M-26 of the revised statutes of Alberta.

(7) Section 2 of Alberta Regulation220/2004, being the Matters Relating to Assessment and

Taxation Regulation (MRAC), states as follows;

"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"

(8) Section 467(3)of the Municipal Government Act states;

"An assessment review board must not alter any assessment that is fair and equitable, taking into consideration

(c) the assessments of similar property or businesses in the same municipality."

(9) For purposes of this Complaint, there are no extraneous requirements or factors that require consideration.

Preamble

(10) In the context of assessment, or real estate valuation, the term "stabilized" refers to the process of analysing actual income and expense items from a subject property for the previous three years, and producing a weighted average of each item which would then be used in the income approach calculation.

(11) The term "normalized" refers to the adoption of percentages published by the Hospitality industry. Each expense item is expressed as a percentage of gross income, based on industry averages throughout the Province.

(12) Depending on the management and accounting practises of the particular hotel, each method can produce substantially different results.

(13) Both parties to this complaint are in agreement as to the percentage allocations for reserves, furniture fixtures and equipment (F.F.&E.), and income to intangibles.

(14) For the current assessment year, the City has adopted a 10.0 per cent capitalization rate for limited service suburban hotels, and 9.0 per cent for the downtown full service facilities. Overall,these rates were not disputed by the Complainant. The rate adopted for the subject is 9.0 per cent. The Complainant contends that the subject is more similar to the suburban facilities, and therefore, a rate of 10.0 per cent is more appropriate.

Position/Evidence of the Parties

Complainant's Position:

(15) The Complainant does not dispute the City's method of stabilizing the net income for the subject over the past three years. However, the complainant points to the fact that even the last three years stabilized income is distorted on the high side due to the 100th anniversary of the Calgary Stampede in 2012, which is a once-in-a-lifetime occurrence.

(16) The Complainant's stabilized net income, after allowances for management and reserves, (F.F. &E), and intangibles, calculates to $980,484.

(17) In support of his argument, the Complainant submitted five comparable hotels for which operating expense ratios are available. Ratios demonstrated by the data are as follows;(ratios are expressed as a percentage of total revenue)

		Comparable				
	Subject	#1	#2	#3	#4	#5
Departmental Expense	44.93	55.70	25.15	39.73	35.75	41.71
Operating Expense	49.97	47.81	45.97	52.37	32.07	47.69
Fixed Expenses	7.56	6.05	5.55	6.46	6.54	7.59
Net Income	23.39	20.44	36.29	24.81	39.44	26.06

(18) Based on those comparisons, the Complainant contends that the subject is not atypical, and therefore the actual expenses should be used in developing the stabilized income and expense statement.

(19) The Complainant also submitted eight hotel/motel transactions for the Board's consideration. Three of these were immediately discounted by the Complainant because the transactions "had issues". The remaining five reflected assessments per room ranging from $21,929 to $81,941. The two lowest assessments are reflected by non-core motels, not hotels. The remaining three properties are considered to be the most similar to the subject. These reflect assessments from $62,476 to $81,941 per room. The subject's current assessment calculates to $68,955 per room.

Respondent's Position:

(20) It is the Respondent's position that all hotels are valued in the same manner, and that all expenses are normalized to maintain equity. In addition, the practise of normalizing expenses eliminates the fluctuations that result from differing accounting and management practises.

(21) According to the Respondent's evidence, all expense items that lie within ten per cent of the normalized industry norm are accepted as submitted. Expenses lying outside of the ten per cent tolerance are normalized.

(22) The Respondent's net income to real estate using normalized expenses calculates to $1,248,052.

Board's Reasons for Decision:

(23) The 100th year anniversary of the Calgary Stampede is recognized as a friendly anomaly for the hospitality industry in the City. However, any City is constantly striving to attract visitors and tourist dollars. Events like the anniversary are not uncommon. There is always "something" that affects a hotel's gross income. But the practise of stabilizing actual income, without deductions or changes, has been an accepted practise in hotel valuation and hotel acquisition for many years. This Board accepts the stabilized gross income as presented by the Respondent.

(24) Based on the evidence submitted, coupled with the argument presented, the Board is satisfied that the City's practise of normalizing expenses that fall outside of a certain tolerance limit is the appropriate method of valuation in a mass appraisal atmosphere. That methodology eliminates large variations in reported expenses that can result from management and accounting practises.

(25) The subject's current assessment per room lies within the range indicated by the comparable data submitted by the Complainant. Moreover, the current assessment per room is within the range of assessments of the three most similar properties in the Complainant's data. To alter the assessment to the amount requested would result in an assessment of $48,756 per room, which is significantly outside of the range indicated by the submitted data. In the board's opinion, to alter the assessment to the requested amount would disturb equity and violate the intent of Section 467(3) of the Municipal Government Act.

(26) All of the downtown full service hotels have been treated in a similar and equitable manner as far as incomes and expenses are concerned.

(27) However, the application of the same capitalization rate to all of the properties takes little or no account of the subject's dated physical plant. A capitalization rate is supposed to be a reflection of an investors feelings and aspirations about a specific property in light of the investment characteristics offered by the asset and in comparison to other investment opportunities on the market. In this respect, the evidence presented by the Complainant is sufficient to convince this Board that the subject is not equivalent to the other downtown core hotels such as the Westin, Hyatt Regency, or Marriott. As such, on the opinion of this Board, these hotels should not be treated in an identical fashion to the subject.

(28) Having said that, this Board is of the opinion that the subject, notwithstanding its location, has more in common with the suburban limited service hotels than it does with other downtown facilities. As such, the 10.0 per cent capitalization rate is considered the most appropriate.

(29) The revised assessment calculates to $12,480,520, truncated to $12,480,000.

DATED AT THE CITY OF CALGARY THIS 6 **DAY OF** September **2013.**

Jerry Zezulka

Presiding Officer

APPENDIX "A"

DOCUMENTS PRESENTED AT THE HEARING AND CONSIDERED BY THE BOARD:

NO.	ITEM

1. C1 Complainant Disclosure
2. R1 Respondent Disclosure

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

Decision No. CARB 71087P/2013			*Roll No. 048021109*	
Subject	*Type*	*Issue*	*Detail*	*Issue*
CARB	Hotel	Market Value	Income Approach	Expenses, capitalization rate