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:

Germain Residences Ltd.
(as represented by Altus Group Ltd.), COMPLAINANT

and

The City of Calgary, RESPONDENT

before:

J. Dawson, PRESIDING OFFICER
J. Mathias, BOARD MEMBER
Y. Nesry, BOARD MEMBER

This is a complaint to the Calgary Composite Assessment Review Board [*CARB*] 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:	**201562345**
LOCATION ADDRESS:	**899 Centre ST SW**
LEGAL DESCRIPTION:	**Plan 1011208; Block 1**
FILE NUMBER:	**72643**
ASSESSMENT:	**$ 33,640,000**

This complaint was heard on the 25th day of September, 2013 at the office of the Assessment Review Board [*ARB*] located at Floor Number 4, 1212 – 31 Avenue NE, Calgary, Alberta, Boardroom 5.

Appeared on behalf of the Complainant:

- *D. Hamilton* *Agent, Altus Group Ltd.*

Appeared on behalf of the Respondent:

- *D. Grandbois* *Assessor, City of Calgary*

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

[1] There are no preliminary, procedural, or jurisdictional issues.

Background:

[2] The subject property is a hotel. "*The category of hotels/motels is a complex property type in that the income they generate, and by extension their value, is derived from a number of assets which in their totality form the going concern value. These assets not only include contributory value from the real property (land and improvements) but also value from non-realty assets in the form of personal tangible property (furniture, fixtures and equipment or FF&E) and intangible personal property, i.e. Business Enterprise Value ("BEV").*"

[3] "*It is fair to say that when a hotel/motel property trades in the market place, typically the sale price will include the value of land and improvements and the non-realty assets. But many assessment jurisdictions in North America mandate that only the real property of a going concern enterprise such as a hotel be assessed. As such the value of the non-realty assets must be identified, quantified and separated from the going concern value.*"[1]

[4] While hotels can be assessed with any of the three methods, hotels are typically assessed using the Income Approach to Value stabilising the actual income and expenses over a three year period and normalising certain expenses to the typical for the hotels considered to be comparable. The stabilised and normalised net income is discounted to account for the non-assessable assets and then capitalised to arrive at an assessment value.

[5] In an effort to maintain confidentiality of individual hotel performance, no income or expense data is discussed in this decision.

Property Description:

[6] The subject hotel opened in mid-February 2010 and is the newest full-service accommodation property in downtown Calgary. It is comprised of 143 guest rooms, a

[1] Robert J. (Bob) Metcalf and John H. Shevchuk, "*Hotel/Motel Valuation Guide*" (Province of Alberta – Municipal Affairs, 2008), p. 3.

restaurant, lounge, fitness centre, spa, and meeting and event spaces. The property is referred to as a '*boutique hotel*' offering a high level of service to a limited clientele.

Issues:

[7] There is a single issue before the Board dealing with the stabilisation methodology. Typically, and as done with all other hotels within Calgary, three years of income and expense data is used with the most current year (Year Three) receiving a 50% weight, the next most recent year (Year Two) receiving a 30% weight and the oldest data (Year One) receiving a 20% weight.

[8] For this property only, the Respondent chooses to place 100% weight on Year Three and ignored data for years One and Two. The hotel opened early in 2010 and the Year One data contains only 133 days of income and expense information and achieved a low occupancy rate of less than 20%.

Complainant's Requested Value: $ 27,740,000

Board's Decision:

[9] The Board, while recognising the Year One and Year Two income and expenses are not typical due to the start-up of operations and low occupancy, found that all reported data was valuable in arriving at the proper assessment.

[10] The Board found the assessment to be $28,680,000 using; normalised income and expense stream for Year One then assigning a 6% weight, Year Two is assigned a 22% weight, and Year Three is assigned the remaining 72% weight.

Position of the Parties

Complainant's Position:

[11] The Complainant described the property and indicated that two full years of operating statements are available and both should be used to prepare the assessment. The Complainant suggested stabilising the financial statements placing an emphasis on the most current year, assigning 40% weight to Year Two, and 60% weight to Year Three. The Year One data is comprised of 133 days with a low occupancy.

[12] The Complainant provided reference material on accepted assessment practices for hotels in support of their request:

"***Stabilising Income and Expense Figures***"

[13] "*Since all income properties are purchased on the basis of expected future income, and since the hotel business has a tendency to fluctuate from year to year, it is recommended that hotel values be established on the basis of stabilised incomes and expenses. This procedure follows the steps that a prudent purchaser would take in considering the value of a hotel, and it also serves to stabilise the assessment values.*"

[14] "***The hotel valuation procedure will produce more stable results if income and expense statements can be obtained from the owner over a period of three years or longer.***"

"***Stabilising the Data***"

[15] "*...if the property owner supplies information for the applicable three-year period, and the assessor decides that each year is equally important in stabilising the data for the current assessment period, the assessor would apply 33.3 percent as the weight for each year to produce "average" stabilised data. If, however, the future income is expected to be more closely related to the most current (or any other) year, a higher weight can be assigned to this year, (for example, 30 percent, 30 percent and 40 percent).*" [2] (Emphasis as presented C1 p. 33).

[16] When questioned, the Complainant admitted that there is no specific basis for their suggested stabilisation method – 40% Year Two and 60% Year Three; however, they believed it produced a better and more accurate result than the Respondent's methodology, which placed 100% weight on Year Three.

[17] The Complainant pointed out that a competing hotel located on the same intersection had very similar income results in Year Three; however, because their income and expense data is stabilised, their assessment is significantly lower on a per available room [*PAR*] basis.

Respondent's Position:

[18] The Respondent provided extensive marketing materials for the subject hotel showing the property is luxurious. Based on similar downtown hotels, the Year Three data represented expected future revenue. Therefore, the Respondent places 100% weight on Year Three income and expense data.

[19] The Respondent included evidence of accepted assessment practices for hotels in support of their request:

[20] "*Hotels/motels, like all income producing properties are purchased on the basis of expected future income. Unlike office buildings and shopping centres which are subject to longer term leases, the hotel/motel business typically operates on short term occupancies ranging from a day to a week, hence its performance tends to fluctuate from year to year. As a first step in determining value, a hotel/motel's financial performance over time is reviewed and analysed to estimate a stabilised (one year's maintainable) net operating stream in current dollars, at each date of assessment. A stabilised net operating income stream is intended to be reflective of anticipated performance of a hotel/motel over its remaining economic life given all the applicable periods of growth, plateau and decline in a hotel/motel's life cycle. As such the stabilised net operating income excludes from consideration any abnormal supply and demand factors, and any temporary or non-recurring conditions e.g., SARS or 9/11, that may translate into unusual revenues or expenses.*"

[21] "*In estimating a stabilised net operating income stream for a hotel/motel it is recommended that financial statements for a period of three years be analysed. Given stable performance, usually three years of income and expense statements are sufficient to determine a stabilised net operating income stream. However, where a particular hotel/motel has experienced an unstable performance, it is necessary to analyse over a longer period of five years or more. Generally, if a hotel/motel is performing on a stable basis, the assessor will place more weight on the current trailing year's performance up to the date of assessment as it is likely to be indicative of a stabilised net operating income stream in current dollars. On the other hand, where performance is somewhat erratic the assessor may trend the performance over a number of trailing years.*"[3] (R1 p.63)

[22] The Respondent provided the "2013 Roll Hotel/Motel Valuation Parameters" as utilised by the Respondent in the preparation of hotel assessment. The parameters show that

[2] Alberta Assessors' Association, *Hotel/Motel Valuation Guide* (Alberta, June 1998), p. 25.

[3] Robert J. (Bob) Metcalf and John H. Shevchuk, "Hotel/Motel Valuation Guide" (Province of Alberta – Municipal Affairs, 2008), pp. 36 and 37.

downtown full-service hotels are assessed differently in almost every category, including capitalisation rates, than suburban and limited service hotels. The parameters reveal that Year One is assigned 20% weight, Year Two 30% weight, and Year Three 50% weight (R1 p. 64).

[23] The Respondent analysed downtown full-service hotels based on their revenue *PAR* to show the subject is among the top hotels for achieving revenue and very close to revenue achieved for a hotel on the same intersection (R1 p. 65).

[24] The Respondent showed the assessments for downtown hotels represented on a per guest room basis showing the subject is assessed the highest. The Respondent indicated the results are expected due to the age and revenue *PAR* of the subject (R1 p. 66).

Board's Reasons for Decision:

[25] The Board Is versed in assessment practices and has access to relevant legislation, regulation and assessment guidelines produced by the Province of Alberta – Municipal Affairs. The Board considered the excerpt provided by the Respondent. The text (paragraphs 21 and 22 above) indicate that three years of data is recommended unless a property experiences unstable performance, otherwise more data is recommended. The Respondent seems to be doing the opposite; the unstable results presented over three years, due to starting up of operations, compelled the Respondent to consider Year Three data only and ignore Year One and Year Two.

[26] The Board agrees with the valuation guide wherein it states; "*A stabilised net operating income stream is intended to be reflective of anticipated performance of a hotel/motel over its remaining economic life given all the applicable periods of growth, plateau and decline in a hotel/motel's life cycle.*" The Board found there is no evidence to support that the subject's Year Three performance will be sustainable.

[27] The Board agreed with the Complainant that the use of Year Three data only, produced an assessment greater on a per guest room basis than a direct competitor on the same intersection. It seems the subject is not getting the benefit of stabilisation that its competitor gets; however, on the other side of the equation the subject is provided the detriment of normalisation because their administration and operation costs are higher than normal; likely due to the relatively new property not yet achieving optimal occupancy.

[28] The Board having found the use of 100% Year Three data inappropriate for assessment purposes must consider what is appropriate. The Board found no basis for the Complainant's suggested 40% Year Two / 60% Year Three stabilisation methodology.

[29] The Board is charged with finding the correct assessment with the evidence provided and looked to the entirety of the Hotel/Motel Valuation Guide and found the following except which gave direction to look at industry norms.

[30] "*To achieve an equitable assessment base, industry revenue and expense norms need to be established using the common data. These norms can then be compared to the actual operating performances of the various types of hotels/motels covered in this Guide. Where actual income and expenses have not been provided or there is no operating history, as in the case of a new hotel/motel, any hotel/motel can be valued with supportable results using industry norms.*"[4]

[31] The Board finds the use of industry norms as guidance to normalise the income and expenses for the subject in Year One and the occupancy for Year One and Year Two.

[4] Robert J. (Bob) Metcalf and John H. Shevchuk, "Hotel/Motel Valuation Guide" (Province of Alberta – Municipal Affairs, 2008), p. 35.

[32] The subject during Year One shows 133 days of operation and 365 days of operation for Year Two and Year Three (Year Three likely had 366 days of operation due to leap year). The Board divided the typical operating days of 365 by the actual operating days of 133 to arrive at a ratio of 2.74. This ratio was multiplied against all income and expense data reported to find the income and expenses one would expect for a 365 day period if the typical income and expenses remained the same as the 133 days. Not a perfect solution; however, a solution, admitted by the Respondent during questioning, that is appropriate.

[33] The Board then considered the evidence for occupancy. The Respondent reports 73.5% occupancy as the industry norm in Year Three. The subject in Year Three achieved 65.5% occupancy. A ten percent variance of the industry norm brings the occupancy to 66.15%. There is no industry norm for Years One and Two leaving the Board the only option to consider the industry norm for Year Three for all three years.

[34] The Board divided actual occupancy by normalised occupancy and multiplied the result by the typical weighting for Year One and Year Two to arrive at a property specific weighting for the subject. The remaining weight is assigned to Year Three.

		Year One	Year Two	Year Three
	Industry Norm Occupancy			73.5%
A	Actual Occupancy	19.6%	49.3%	65.5%
B	Normalised Occupancy	66.15%	66.15%	66.15%
C	Typical Weighting	20%	30%	50%
	Subject Specific Weighting (A / B x C) Year One and Two only	6%	22%	Remaining 72% (100% - Year One % - Year Two %)

[35] The Board found that the resultant assessment of $28,680,000, when viewed on a per guest room basis ($200,559), is much closer to the direct competitor on the same intersection. The Board finds the amended assessment fair and equitable.

[36] The Board within this decision corrected calculation errors in the "Fixed Expenses" section of the Respondent's Assessment Calculation report. The normalisation variance resulted from subtraction rather than from division.

DATED AT THE CITY OF CALGARY THIS 8th **DAY OF** October **2013.**

Jeffrey Dawson
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.

Municipal Government Board use only: Decision Identifier Codes					
Appeal Type	Property Type	Property Sub-Type	Issue	Sub-Issue	
CARB	Other Property Types	Hotel/Motel	Cost Approach	Stabilisation Methodology	®