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. (Represented by AEC Property Tax Solutions), COMPLAINANT

and

The City Of Calgary, RESPONDENT

before:

W. Kipp, PRESIDING OFFICER
K. Farn, BOARD MEMBER
P. Loh, BOARD MEMBER

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 2014 Assessment Roll as follows:

ROLL NUMBER:	**067072603**
LOCATION ADDRESS:	**708 – 8 Avenue SW, Calgary AB**
FILE NUMBER:	**75856**
ASSESSMENT:	**$18,470,000**

This complaint was heard by a Composite Assessment Review Board (CARB) on the 22nd day of July, 2014 at the office of the Assessment Review Board located at 1212 – 31 Avenue NE, Calgary, Alberta.

Appeared on behalf of the Complainant:

- B. Ryan *Agent, AEC Property Tax Solutions*

Appeared on behalf of the Respondent:

- *D. Grandbois* *Assessor, The City of Calgary*
- *T. Johnson* *Assessor, The City of Calgary*

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

[1] The Complainant had filed its disclosure document with the CARB and the Respondent on May 29, 2014. The Respondent's disclosure was filed July 7, 2014 and a two part rebuttal disclosure was filed July 10, 2014. The Complainant made two requests that were acceptable to the Respondent and agreed to by the CARB:

1) That the two part disclosure be carried forward to Files 74748, 74765, 76010 and 74339, all of which were to be heard as part of the same agenda.
2) That part one of the rebuttal disclosure (marked as Exhibit C2A by the CARB) be sealed to restrict public access to information within the document.

[2] Neither of the parties had concerns or objections to the CARB panel as constituted.

[3] There were no jurisdictional matters to be decided.

Property Description:

[4] The property that is the subject of this assessment complaint is Ramada Calgary Downtown hotel which is located in downtown Calgary at the intersection of 6 Street with 8 Avenue SW. The 1964 hotel which occupies a 0.60 acre corner lot provides 201 guestrooms plus 10,337 square feet of meeting facilities (meeting rooms from 288 to 3,224 square feet), a fitness room, a dining room and a pub. There is a rooftop swimming pool which is operational during summer months. Three small businesses lease 8 Avenue exposure retail stores of 407, 700 and 1,045 square feet.

[5] The 2014 assessment was prepared using the Respondent's standard full service downtown hotel valuation model. Hotel owners/operators report financial results for a three year period and the revenue amounts for the three years are stabilized as the revenue amount for the valuation. Departmental and other expenses and non-realty amounts are deducted on the basis of industry norms with some consideration given to actual. A stabilized total revenue of $9,392,081 was reduced to a net income to real estate of $1,431,609 after departmental and unallocated expenses and income allocated to non-realty assets were deducted. A 7.75 percent

capitalization rate converted the net income to the $18,470,000 assessment.

Issues:

[6] The Assessment Review Board Complaint form was filed on March 3, 2014 by AEC Property Tax Solutions on behalf of Calgary Hoteliers Inc., the "assessed person." Section 4 – Complaint Information had check marks in the boxes for #1 "the description of the property or business," #3 "an assessment amount," #6 "the type of property," and #7 "the type of improvement."

[7] In Section 5 – Reason(s) for Complaint, the Complainant stated numerous grounds for the complaint.

[8] At the hearing, the Complainant pursued the following issues:

1) This hotel has poor financial performance when compared to other hotels and the assessment should reflect actual revenues and expenses.
2) This property presents greater investment risk than other downtown hotels and it appeals to a different class of investors than hotels like the Westin, Hyatt and Marriott. The capitalization rate should be 8.75 percent which is the rate for suburban hotels. The 7.75 percent downtown hotel rate is too low.

Complainant's Requested Value: $16,360,000

Board's Decision:

[9] The assessment is reduced from $18,470,000 to $16,360,000.

Legislative Authority, Requirements and Considerations:

[10] The CARB is established pursuant to Part 11 (Assessment Review Boards), Division 1 (Establishment and Function of Assessment Review Boards) of the Act. CARB decisions are rendered pursuant to Division 2 (Decisions of Assessment Review Boards) of the Act.

[11] Actions of the CARB involve reference to the Interpretation Act and the Act as well as the regulations established under the Act. When legislative interpretation is made by the CARB, references and explanations will be provided in the relevant areas of the board order.

Position of the Parties

Complainant's Position:

[12] Complainant's evidence and argument were detailed in the disclosure document marked by the CARB as Exhibit C1. After the Respondent's evidence was disclosed, the Complainant filed a two part rebuttal document which was marked as Exhibits C2A and C2B. At the request of the Complainant, C2A was sealed by the CARB and will not be disclosed to any other party.

[13] The 2013 assessment ($13,860,000) was the subject of a complaint last year. The 2013

CARB reduced the assessment to $12,480,000 citing the subject's dated physical plant as warranting a change in the capitalization rate to that of suburban hotels (10 percent). This 2014 CARB should take the same position and adjust the capitalization rate from 7.75 percent to 8.75 percent.

[14] Details of seven "A" class downtown hotel assessments show that the subject "A-" hotel is not comparable. The assessment at $91,891 per room is lower than for any of the others ($143,223 to $282,648 per room) but it is still too high. Assessments on eight suburban full service hotels, many of which are newer and superior in quality range from $57,751 to $87,926 per room and indicate a median rate of $82,954 per room. If the subject assessment is reduced to the requested $16,360,000, the unit rate would be $81,393 per room which puts it near the top of the range.

[15] The hotel is 50 years old and it has not undergone recent modernization or upgrading.

[16] This hotel does not compete for the same customers as most of the other downtown hotels and it does not appeal to the same class of investor that would look at purchasing the Westin, Hyatt or Marriott. Typical investors in the subject property would also look at suburban properties in the same price range. Ownership risk is significantly different for the two classes of hotels.

[17] The Ramada hotel does not perform at a high level like the other downtown hotels, particularly in the food and beverage department. There is one dining room in the hotel that essentially caters only to hotel guests and there is one drinking establishment. Its operations are more in line with those of suburban hotels. A comparison of assessments shows that this hotel has "net income to real estate per square foot" of $10.50. Downtown hotels range from $16.14 to $29.31 per square foot indicating a median rate of $19.94 per square foot. Full service suburban hotels exhibit a range from $5.80 to $12.92 per square foot with a median of $10.93 per square foot. A comparison of the "net income to real estate per room" unit of comparison shows similar results. For downtown hotels, the range is from $11,100 to $21,905 with a median of $16,117 per room. Suburban hotels range from $5,053 to $7,694 with a median of $7,258 per room. For the Ramada, the rate is $7,122 per room.

[18] The Respondent had introduced a sale of the Hotel Elan in the Beltline and argued that it was an inferior property to the Ramada for several reasons. In rebuttal, the Complainant argued that it is a superior property notwithstanding that it is in the Beltline and has no food or beverage component. Its assessment is $144,194 per room which shows that the Respondent considers it to be a superior property. In addition, concerns were raised about the reliability of the sale as market evidence. Vendor financing of the purchase might have impacted the price.

Respondent's Position:

[19] The evidence of the Respondent is contained in the disclosure document marked by the CARB as Exhibit R1.

[20] The Respondent argued that the Ramada does perform in similar manner to other downtown hotels. Its performance has been improving year over year and that explains why the assessment has increased from 2013. For this assessment, the adjusted normalized net income of $2,754,942 is only about $120,000 off of the three year stabilized amount. That implies that the application of downtown hotel expense norms is appropriate. Further, actual departmental expenses are the same as normalized expenses which is another indication that this hotel is operating in a similar manner to other downtown hotels.

[21] Hotels trade on a going concern basis and the assessment removes the business enterprise value, leaving just the value of the real estate. Comparisons of hotels are made on the basis of financial performance rather than on physical characteristics.

[22] A January 2013 sale of a Beltline hotel supports the subject assessment. The Hotel Elan, at 1122 – 16 Avenue SW sold at a price equivalent to $184,226 per room. This property is inferior to the subject because it is a conversion from an apartment building to a hotel. Further, it has no food or beverage facilities. When the sale price was adjusted to remove the hotel business component, the sale indicated a capitalization rate of 7.61 percent which supports the downtown hotel capitalization rate. Comparisons to the Ramada "revenue to available room" rate concluded that the Hotel Elan assessment would be from $140,289 to $146,605 per room. The assessment to sale price ratio would fit within the acceptable 0.95 to 1.05 range.

Board's Reasons for Decision:

[23] The CARB accepts the Respondent's valuation model which blends actual financial performance with industry norms. That methodology tends to eliminate extremes and vagaries in departmental and other expenses in particular.

[24] The CARB does not accept the argument that the Ramada operates in a similar manner to other downtown hotels. While it is located in the downtown core, it is an older property and it does not provide similar amenities. Its remaining economic life expectancy is short in comparison.

[25] The Ramada property would appeal to a different class of investor than most other downtown hotels. From an investment perspective, it would be more comparable to suburban full service hotels. The measure of investment risk is in the capitalization rate. Suburban hotels are assessed on the basis of an 8.75 percent capitalization rate which is one full percentage greater than the downtown rate. This is a reflection of the investor perceptions of risk and reward. When the subject is valued on the basis of an 8.75 percent capitalization rate, the value equates to $81,393 per room, a rate which fits into the range for the types of properties which are considered to be most similar from the perspective of investors.

[26] The CARB found no comparable physical or operational characteristics of the Hotel Elan that support the assessment of the Ramada as a downtown hotel.

DATED AT THE CITY OF CALGARY THIS 19 DAY OF August 2014.

W. Kipp

W. Kipp

Presiding Officer

APPENDIX "A"

DOCUMENTS PRESENTED AT THE HEARING AND CONSIDERED BY THE BOARD:

NO.	ITEM
1. C1	Complainant Disclosure
2. R1	Respondent Disclosure
3. C2A	Complainant Rebuttal – Part 1
4. C2B	Complainant Rebuttal – Part 2

Note: Exhibit C2A has been sealed by the CARB

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 ADMINISTRATIVE USE

Appeal Type	Property Type	Property Sub-Type	Issue	Sub-Issue
CARB	OTHER	HOTEL	INCOME APPROACH	CAPITALIZATION RATE