TOWN OF HINTON
INTER-MUNICIPAL ASSESSMENT REVIEW BOARD
DECISION WITH REASONS

CARB – 0151-005/2010

IN THE MATTER OF A COMPLAINT filed with the Town of Hinton Composite Assessment Review Board (CARB) pursuant to Part 11 of the *Municipal Government Act*, Chapter M-26, Revised Statutes of Alberta 2000 (the Act).

Between:

All In West Ltd.! Capital Corporation - Complainant

and

Town of Hinton – Respondent

Before:

J. Krysa, Presiding Officer
S. Coombe, Member
B. Krewusik, Member

A hearing was held on Thursday, November 25, 2010 in Council Chambers of the Town of Hinton in the Province of Alberta, in respect of the property assessment prepared by the appointed assessor for the Town of Hinton, and entered in the Assessment Roll as follows:

Roll #	Assessed Value	Owner
0009000400	**$4,872,020**	**All In West Ltd.! Capital Corporation**

Appeared on behalf of the Complainant:

- **S. Storey**, Fairtax Realty Advocates

Appeared on behalf of the Respondent:

- **A. McNaughton**, Compass Assessment Consultants Inc.

A. BACKGROUND AND DESCRIPTION OF PROPERTY UNDER COMPLAINT

The subject property is an 80,150 square foot (1.84 Acre) parcel of land, improved with an 87 room limited service hotel constructed in 1997, operating as the Econo Lodge (formerly the Black Bear Inn). The property is located at 571 Gregg Avenue, a commercial service road that runs parallel to the TransCanada Highway (#16). The total improvement area is 33,449 square feet, comprised of approximately 30,104 square feet of guestrooms, and 3,345 square feet of public areas including a restaurant.

B. PROCEDURAL or JURISDICTIONAL MATTERS

The Composite Assessment Review Board derives its authority to make decisions under Part 11 of the Act. There were no objections with respect to the board members assigned to hear the complaint, and no specific jurisdictional or procedural issues were raised during the course of the hearing by the parties.

C. MATTERS / ISSUES

The Board considered the submissions and representations of the parties within the context of the matters and reasons for the complaint, as set out by the Complainant in sections 4 and 5 of the complaint form.

Matters: (s.4): This complaint is in respect of matter number 3, an assessment amount.

Reasons: (s.5): Revenue and net operating incomes have reduced annually since 2007 due to the economic conditions in the area. Assessments have remained constant for 2009 and 2010 without reflecting the loss of gross revenue, reduced NOI and the inherent risk in investing in this industry.

Requested Assessment: (s.5): Complainant set out a requested assessed value of $1,700,000, however at the hearing the Complainant requested an assessment of $2,302,308.

Submissions of the Parties:

The Complainant argued that although recent economic circumstances affecting the municipality have caused a significant decline in the operating performance of the subject property (and other similar properties), the assessor has not recognized the resulting loss in value, in the preparation of the assessments of these properties. Notwithstanding the significant decline of NOI from 2007 to 2009 in the subject property, the assessment has remained unchanged at $4,872,020 from the 2009 taxation year.

The Complainant submitted that the 2009 average occupancy rate of 43.5% and average daily rate of $108.00 of hotels in the municipality reflects an average RevPAR (Revenue Per Available Room) of $46.98, in contrast to the actual performance of the subject property which achieved a 25% occupancy rate and a $78.00 average daily rate, resulting in a RevPAR of approximately $19.00. The Complainant argued that the data is evidence of a property that is not performing, in an entire market that is not performing.

In support of that argument, the Complainant submitted a summary of the operating statements of the subject property for the period of July 1, 2007 to December 31, 2009. As the subject was acquired by the current owners during 2007 and the operating statements for the full year (2007) were unavailable, the Complainant submitted that the partial year data could be pro-rated or "normalized" to reflect a full 12 month period [C1, pp. 1-2].

A summary of the above financial data, along with the Complainant's proposed "stabilized" values appears below:

	2007 Jul-Dec	2007 Normalized	2008	2009	Stabilized
Room Revenues	$ 1,037,317	$ 2,074,634	$1,172,559	$632,092	$ 902,326
Total Revenues	$ 1,072,223	$ 2,144,446	$1,244,695	$686,511	$ 953,850
Departmental Expenses	$ 298,981	$ 597,962	$ 509,996	$345,717	$ 271,166
Departmental Income	$ 773,242	$ 1,546,484	$ 734,699	$340,794	$ 682,684
Other Expenses	$ 215,013	$ 430,025	$ 342,379	$292,385	$ 398,292
Net Operating Income	$ 558,229	$ 1,116,459	$ 392,320	$ 48,409	$ 284,403

The Complainant argued that the "stabilized" NOI (Net Operating Income) of $284,403 should be relied upon to establish the value of the property, in contrast to the Assessor's projected NOI of $650,728, resulting in a capitalized value of $2,708,597 (at a 10.5% capitalization rate). The Complainant further argued that as this value is established from income derived from non-real estate components of the hotel, e.g. furniture, fixtures and equipment (FF&E), a deduction of 15% is necessary, resulting in a net real estate value conclusion of $2,302,308.

The Respondent reviewed section 2 of *Matters Relating to Assessment and Taxation Regulation*, AR 220/2004, indicating the requirement that an assessment must be prepared using mass appraisal. The Respondent further reviewed section 467(3)(c) of the Act, and noted that assessment review boards must take into consideration the assessments of similar properties or businesses in the same municipality.

The Respondent argued that the subject property is well located along Highway 16, being one of the first hotels encountered when entering the municipality from the west; however, acknowledged that access to the subject and limited parking are negative factors which may explain to some degree the lower than typical RevPAR evidence provided by the Complainant. As a result of these factors which were previously not a consideration in the preparation of the assessment, the Respondent recommended a revised assessment of $45,500 per room, equating to a total assessed value of $3,960,000; a value the Respondent deemed fair and equitable considering the assessment classifications and assessed values of comparable and competing properties [R2].

In support of the recommended assessment, the Respondent submitted evidence of 5 hotel sales in the municipality, including the sale of the subject property, exhibiting sale prices ranging from $63,021 to $152,708 per room including non assessable components. The time adjusted sale prices ranged from $34,107 to $82,646 per room after deductions for non assessable components, in contrast to the subjects current and recommended assessments of $56,000 and $42,500 per room, respectively. Additional evidence of 8 hotel sales from other municipalities in northern Alberta were also submitted in support of the Respondent's position [R1, pp. 22-28].

The Respondent submitted that the June 2007 sale of the subject property at $12,140,000, if time adjusted to the current valuation date for this assessment would indicate a real estate market value of $74,661 per room as of July 1, 2009; a value well in excess of the current assessment and the recommended assessment.

The Respondent noted that it has been difficult in obtaining operating and financial information from hotels in the municipality, although the owner of the subject property and the Days Inn did provide some financial information in response to his request pursuant to s.295 of the act. However, in light of the market survey data contained in several third party market reports, and without further financial data from other properties in the municipality to corroborate the information received, the Respondent indicated that he did not consider the financial information from the Black Bear Inn and the Days Inn an accurate representation of the typical Hinton hotel market.

The Respondent submitted that the hotel inventory has been assessed by the income approach to value, with coefficients derived from various sources including Travel Alberta (advertised "rack rates"), and third party hotel market information relating to northern Alberta communities, such as Panell, Kerr, Forster (PKF), and HVS/Smith Travel (HVS). The PKF survey of hotels located in northern Alberta communities displayed a 2009 average occupancy rate of 50%, and a 2009 average daily rate of $130.00, equating to a 2009 average RevPAR of $65.00.

The HVS/Smith Travel reported statistics reported the following market data:

Period	Occupancy %	Ave Daily Rate	RevPAR $
Month of July 2009	53.1%	$162.31	$86.19
Year to Date (Jul 2009)	46.8%	$149.99	$70.20
Month of Nov. 2009	47.3%	$148.72	$70.34
Year to Date (Nov. 2009)	41.3%	$127.01	$52.46

From the PKF and HVS/Smith Travel data, the Respondent indicated that the occupancy rate of 46.8%, and an average room rate of $130.00, with a resulting in a RevPAR of $60.84, was relied upon to establish the current assessment for the subject property.

To demonstrate that the subject property is equitably assessed in relation to its competitors, the Respondent set out the current assessment values for 15 Hinton hotels, exhibiting a range of assessments from $38,000 to $75,000 per room. It was noted that, as a result of a recent agreement arising from an assessment complaint, an adjustment had subsequently been made to the Days Inn, reducing the assessment from $54,000 to $46,500 per room [R1, pp. 6-21].

In response to the Respondent's submission, the Complainant argued that the approach and calculations relied upon by the assessor is incorrect. As an example, the room expense ratio at 40.8% is much higher than industry average of 28.8%, although no market evidence was provided to substantiate this ratio. Further, the Complainant advised that the assessor's questionnaire did not specifically request financial statements.

In summary, the Complainant questioned how hotel assessments can possibly remain at the same assessment value year after year if the economic situation and performance of the properties is taken into consideration annually. The Complainant argued that the main issue is determining fair market value between a willing buyer and willing seller, and the actual income achieved as reflected in the financial statements of the hotel is the best information available to determine fair market value. The Complainant further argued that the subject property is not worth as much today at current occupancy, as it would be at full occupancy; properties have lost 70% of their value due to the economic circumstances, and that has not been reflected in the current assessment.

In summary, the Respondent indicated that the board must decide if it accepts the method used to assess the property, or the information that had been provided by the Complainant. The coefficients used in the preparation of the assessment were derived from advertised rack rates, and from reputable third party sources which reflect northern Alberta communities with similar economic factors.

Decision

The Board finds that the Complainant has provided insufficient, relevant market evidence to warrant disturbing the assessment. As a result, the Respondent's recommended assessment is accepted as being correct, and fair and equitable with competing properties.

The legislation sets out the requirements an assessor must follow in the preparation of an assessment.

Matters Relating to Assessment and Taxation, AR 220/2004

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.

In this instance, there was no evidence provided to demonstrate that the Complainant's financial evidence from the subject property is reflective of the typical hotel market conditions in the municipality.

Further, the Board does not accept that the Complainant's stabilized net operating income is appropriate to rely upon to establish the market value of the property for assessment purposes as it is significantly influenced by financial data that became factual subsequent to the valuation date of July 1, 2009.

Matters Relating to Assessment and Taxation, AR 220/2004

3 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.

The Board accepts that a potential buyer or seller would rely on the financial statements of a hotel to establish its market value, however, as of the valuation date a buyer and seller could only speculate on what may happen for the next 6 month period. Further, the Board notes that had the Complainant stabilized the data by relying on the average of the 2 years of financial data culminating on the valuation date for this assessment, being Jul 2007 to July 2009 (with actual 2009 NOI pro-rated at 50%), the stabilized NOI would have amounted to $487,376; approximately the income necessary to result in the Respondent's recommended assessed value.

The Board further rejected the Complainant's stabilized net operating income as the room revenues were apparently stabilized at the average of the actual 2008 and 2009 revenues, however the deduction for "other expenses" appears to be inflated as it significantly exceeds the actual expenses for that category in both 2008 or 2009, resulting in a reduced net operating income. As a result of all of the above factors, the Board placed little weight on the Complainant's stabilized net operating income, and the resulting capitalized value conclusion.

The Board is concerned that the assessments have apparently been prepared by the income approach to value, however have remained unchanged throughout a decline in the typical market, as indicated in the Respondent's evidence of PKF results from July and November 2008 to the same period in 2009, at page 30 of R1. The Board further accepts that advertised "rack rates" are generally found to be well above average daily rates achieved in a location with sufficient competing properties, as the limited evidence in this matter demonstrated.

Additionally the Board was provided with an assessment calculation of the subject property based on the coefficients relied upon by the assessor at R1, pages 37-38, however, the indicated value conclusion of $4,130,000 was well below the assessed value of $4,872,020 under complaint, and the Board is unclear on how the assessment was actually prepared.

Notwithstanding the Board's concerns with the current assessment, as the evidence was insufficient to demonstrate that the assessment was incorrect, the Board examined the Respondent's equity comparables in the vicinity of the subject property. The Respondent's recommended $45,500 assessment per room appears to be equitable in relation to The Pines, a property inferior to the subject and assessed at a rate of $38,000 per room, and the Holiday Inn, a property superior to the subject and assessed at a rate of $65,000 per room.

FINAL DISPOSITION OF COMPLAINT

The complaint is allowed and the assessment is revised from $4,872,020 to $3,960.000

Dated in the Town of Hinton, in the Province of Alberta, this 22 day of December, 2010.

J. Krysa

J. Krysa
Presiding Officer

APPENDIX "A"

DOCUMENTS RECEIVED AND CONSIDERED BY THE ASSESSMENT REVIEW BOARD:

NO.	ITEM
1. Exhibit C1, C2 and C3	Complainant Submissions
2. Exhibit R1 to R5 inclusive	Respondent Submissions

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.*