

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 Plaza Hotel Ltd. (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:	054010053
LOCATION ADDRESS:	1316 – 33 Street NE, Calgary AB
FILE NUMBER:	76010
ASSESSMENT:	\$15,430,000

This complaint was heard by a Composite Assessment Review Board (CARB) on the 21st day of July, 2014 at the office of the Assessment Review Board located at 1212 – 31 Avenue NE, Calgary, Alberta, Boardroom 1.

Appeared on behalf of the Complainant:

- B. Ryan Agent, AEC Property Tax Solutions
- A. Sivalingam, Observer, AEC Property Tax Solutions

Appeared on behalf of the Respondent:

- T. Johnson Assessor, The City of Calgary
- D. Grandbois 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, 75856 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 the Coast Plaza, a 248 full service hotel situated on a 10.18 acre site in northeast Calgary. The hotel has exposure to the Trans-Canada Highway (16 Avenue NE) but there is no access or egress to that highway. Access is via 12 Avenue NE or 33 Street NE.

[5] The hotel was built in 1978 and the most recent major renovation was undertaken in 2004. There is a variety of guestrooms and suites. A convention centre component provides 17,240 square feet of meeting space in several rooms that range in size from 1,289 to 3,306 square feet. An indoor swimming pool and whirlpool are available to guests as is a fitness centre. There is a restaurant, a lounge and a nightclub. The property manager reports that there are 800 parking stalls surrounding the hotel. Other sources indicate that there are more than 900 stalls.

[6] The 2014 assessment was prepared using the Respondent's standard hotel/motel valuation model. Revenues are based upon stabilization of three years of actual operations and departmental and other expenses are based primarily upon industry norms for various categories of expense. For the July 1, 2013 assessment for the 2014 tax year, total revenue was stabilized at \$12,371,572. After allowances for all expenses and non-assessable hotel components, the net income to real estate amounting to \$1,141,973 was converted to a value by application of an 8.75 percent capitalization rate. Revenue to the hotel includes \$42,000 from rental of 300 parking stalls to an automobile dealership located beside the hotel. The Respondent equates the 300 parking stalls to 2.0 acres of excess land and the hotel assessment is adjusted upwards by \$2,385,440 for this excess land.

Issues:

[7] The Assessment Review Board Complaint form was filed on March 3, 2014 by AEC Property Tax Solutions on behalf of Calgary Plaza Hotel Ltd., the "assessed person." Section 4 – Complaint Information had check marks in the boxes for #3 "an assessment amount", #6 "the type of property," #7 "the type of improvement" and #9 "whether the property or business is assessable."

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

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

- 1) The "excess land" assessment adjustment is too high, and
- 2) The Management and Reserve allowance in the assessment calculation is too low.

Complainant's Requested Value: \$9,990,000 if both adjustments are made or \$13,530,000 if only the excess land adjustment is made.

Board's Decision:

[10] The CARB reduces the assessment to \$13,530,000.

Legislative Authority, Requirements and Considerations:

[11] 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.

[12] 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:**

[13] Details of the Complainant's evidence are provided in Exhibit C1. Following receipt of the Respondent's disclosure of evidence, the Complainant filed a two part rebuttal document (Exhibits C2A and C2B).

[14] The land use bylaw under which the Coast Plaza hotel and convention centre was approved contained parking requirements for various types of uses. The Complainant calculated the total number of required parking stalls at 1,079 for the property. This exceeds the 800 that are currently provided. The 300 parking stalls that are being leased to the automobile dealer are part of the total parking stalls that currently exist and they are part of the required stalls pursuant to the development approvals for the hotel. For this reason, the land occupied by those stalls is not excess land that could be subdivided or otherwise separated from the hotel property.

[15] The rental income generated by rental of the parking stalls should be capitalized at the hotel capitalization rate which increases the assessment by \$480,000. That would provide for a fairer recognition of that portion of the property.

[16] The assessment bases certain expenses on industry norms. A 4.5 percent allowance is made for management and 4.0 percent for reserves for replacements.

[17] These allowances are too low for the subject hotel. It has a large convention component that is cost intensive. The 4.5 percent management allowance is low by industry standards and it should be at least 6.0 to 8.0 percent. Current management charges the Coast Plaza a 7.0 percent management fee. The 4.0 percent allowance for capital expenditures is the industry norm. For this property, actual capital expenditures amount to three times the allowance granted in the assessment calculation. A list of capital cost amounts for elevator upgrades, exterior painting, bed and window treatment, guestroom seating. Artwork, lamps, lighting, amenities upgrades, canopy and facade improvements and exterior lighting totals \$2,946,032. The total management and reserves allowance in the assessment calculation is 8.5 percent of normalized income or \$1,051,584.

[18] For the subject property, the income to management and reserves should be increased from 8.5 to 11.0 percent. This would increase the combined allowance to \$1,360,873 from the \$1,051,584 in the assessment calculation.

Respondent's Position:

[19] Details of the Respondent's evidence are contained in the disclosure document marked as Exhibit R1.

[20] Copies of extracts were taken from the original development permit (August 1979) for the subject hotel. One page of the extract had a handwritten note that the total number of parking stalls required was 864 whereas 906 were being provided.

[21] The amounts in the assessment calculation should match those provided in the ARFI response. The calculation shows revenue amounts based on stabilization of reported amounts. Expenses are based to some extent on actual reported amounts but tempered to reflect industry norms.

[22] A stabilized management cost of \$1,762,751 represents 14.2 percent of total revenue

which exceeds the industry norm for full service suburban hotels. The combined management and reserves expense is typically about 8.5 percent. That lower rate has been adopted for the subject assessment calculation because it conforms to the range of industry norms for this class of hotel. The Respondent carries out a revenue and expense ratio study for the various classes of hotels and motels. It is the ratios and rates from those studies that are the norms for assessment calculations. For full service suburban hotels, ARFI responses indicated median ratios for management expense at 4.00 percent and for reserves at 4.27 percent.

Board's Reasons for Decision:

[23] The CARB finds that better factual data presentations would have assisted greatly in deciding the excess land issue. Management reported 800 parking stalls. The Respondent's copies of original development permit pages indicated that there were 906 parking stalls. In any event, 300 stalls are rented on a month to month basis for total annual revenue of \$42,000.

[24] The CARB finds that there is no excess land on this hotel site. Notwithstanding the confusion over the actual number of on-site stalls, the required parking is at or near the number of stalls that exist. The development permit information provided by the Respondent suggests that there are 42 stalls more than are required. 42 stalls does not translate into 2.0 acres of land. Not all of the stalls are necessary for the hotel's current day to day operations so management chooses to rent 300 stalls to a neighbouring business. The only enhancement to the market value of the hotel property is the amount of revenue that rental of 300 parking stalls adds.

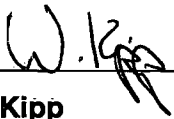
[25] More confusion exists with the assessment calculation. The Respondent remarked that amounts in the assessment calculation should match those provided in the ARFI response. The ARFI response shows revenue from "Other Departments" and "Retail Tenants." An attached schedule shows that retail tenant rental revenue comes from a gift shop in the hotel, the 300 parking stalls and three rooftop antennas where the antenna operator pays a monthly rent to have the antennas on the roof. Total revenue from the two sources for the three years is: Year 1 = \$270,155, Year 2 = \$295,782 and Year 3 = \$296,720. The exact amounts were inserted into the assessment calculation for Years 1 and 2 but for Year 3, only the \$99,047 of revenue from "Other Departments" has been included. This means that the stabilization process includes a portion of the parking stall revenue (20 percent and 30 percent for Years 1 and 2 respectively). For Year 3, there is no "retail Tenant" revenue included, not even for the gift shop and antenna rentals unless that revenue is now added at some other point. Neither party to the Complaint addressed the revenue reporting and stabilization processes. It appears to the CARB that at least some of the parking stall revenue is included in stabilized income. With no explanation, however, the CARB has not changed the assessment other than by accepting the Complainant's calculations wherein \$42,000 is capitalized at the hotel capitalization rate to yield a \$480,000 addition to the assessment.

[26] Having regard to the management fee, the CARB does not accept the position that the actual fees paid to the hotel management company should be substituted for the industry normal or typical fees. The Complainant's support for this claim was a note from a representative of the management company. There were no other industry opinions or examples of such 6.0 to 8.0 percent management charges. The Respondent has conducted market studies and ARFI response analyses and determined that normal management fees and reserves for full service suburban hotels are equivalent to 8.5 percent of total revenue. The assessments of all Calgary hotels are founded on typical rates and ratios and the CARB sees no reason to make the subject property an exception to the norm.

[27] In the ARFI response, the Complainant reported capital expenditures for realty items in Years 1 and 3 of the three year reporting period. For furniture, fixtures and equipment, capital expenditures were made in Years 2 and 3. In an email to the agent who appeared at the hearing, the Complainant outlined \$2.9 million in capital costs that either have been spent or will be spent (there were no details for each type). This expenditure data does not align with the amounts reported in the ARFI response. Capital expenditures vary from hotel to hotel and from year to year. For example, the Complainant presented information from management that stated that \$900,000 in capital expenditure would be necessary to upgrade the elevators. Elevator upgrading is not an annual obligation. The income deduction for reserves is an annual amount and it is the accumulation of those annual contributions that assures that the \$900,000 elevator upgrade cost will be "in the bank" when it is needed.

[28] In conclusion, the CARB finds that there is insufficient documentary evidence to support the position that actual management and reserves expenses at the subject property should be exchanged for the norms that are included in the assessment calculation.

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



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	EXPENSES