



ASSESSMENT REVIEW BOARD

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NOTICE OF DECISION NO. 0098 103/10

Altus Group Ltd.
17327 106A Avenue
Edmonton AB T5S 1M7

The City of Edmonton
Assessment and Taxation Branch
600 Chancery Hall
3 Sir Winston Churchill Square
Edmonton AB T5J 2C3

This is a decision of the Assessment Review Board (ARB) from a hearing held on July 12, 2010 respecting an appeal on the 2010 Annual New Realty Assessment.

Roll Number 9966898	Municipal Address 10222 102 Street NW	Legal Description Plan: 9920847 Block: A
Assessed Value \$25,985,500	Assessment Type Annual - New	Assessment Notice for: 2010

Before:

Dave Thomas, Presiding Officer
Jack Jones, Board Member
Judy Shewchuk, Board Member

Board Officer:

Segun Kaffo

Persons Appearing: Complainant

Doug Betker, Altus Group

Persons Appearing: Respondent

Chris Hodgson, Assessor
Cameron Ashmore, Law Branch

PROCEDURAL MATTERS

- 1) Upon questioning by the Presiding Officer, the parties present indicated no objection to the composition of the Board. In addition, the Board members indicated no bias with respect to this file.
- 2) The Respondent requested and the Complainant agreed that all witness testimony be taken under oath.

3) The Complainant requested that rebuttal evidence be allowed to be presented to the Board for review and consideration. The Respondent argued that the rebuttal evidence in question was in fact new evidence not rebuttal, and should not be considered by the Board. After considering the rebuttal evidence package and the arguments from both parties the Board determined that the evidence was in fact new evidence and the decision of the Board was not to accept or consider it.

ISSUES

- 1) Does the stabilized weighting utilized by the City of Edmonton of the past three years income and expense statements reflect market conditions as of the valuation date ?
- 2) Should the parking revenues and expenses be included in the 2010 assessment ?
- 3) Should the incentive management fees be included in the expense allowances in determining the income used to develop the 2010 assessment ?

LEGISLATION

The *Municipal Government Act*, R.S.A. 2000, c. M-26;

S.467(1) An assessment review board may, with respect to any matter referred to in section 460(5), make a change to an assessment roll or tax roll or decide that no change is required.

S.467(3) An assessment review board must not alter any assessment that is fair and equitable, taking into consideration

- a) the valuation and other standards set out in the regulations,*
- b) the procedures set out in the regulations, and*
- c) the assessments of similar property or businesses in the same municipality.*

POSITION OF THE COMPLAINANT

The Complainant attended the hearing and presented evidence (C-1 & C-2) and argument for the Board's review and consideration. The subject property is known as the Delta Centre Suites Hotel.

- 1) With regard to the issue of the stabilized weighted income the Complainant argued that the City of Edmonton weighting of 10% for 2006, 20% for 2007 and 70% for 2008 was inequitable and placed too great an emphasis on a high income year heading into a declining economy. The Complainant requested that the weighting be revised to 30%-40%-30% for the applicable years in order to more accurately reflect the market conditions over the three year period heading into the valuation year.
- 2) With regard to the issue of parking revenues and expenses the Complainant argued that since the parking was not owned by the subject, and was located on another roll number, the associated revenues and expenses should be excluded from the assessment valuation. The Complainant referenced Board Order MGB 094/08 with respect to off site parking utilized by the Hotel Macdonald.

- 3) The Complainant argued that the management fee utilized in the assessment of the subject property has been incorrectly stabilized, as it has failed to take into account the incentive management fee, and that even when this is included the actual management fee is still within the 10% tolerance level.

POSITION OF THE RESPONDENT

The Respondent attended the hearing and presented evidence (R-1) and argument for the Board's review and consideration.

- 1) With regard to the issue of the stabilized weighted income, the Respondent argued that all hotels in the City of Edmonton are assessed utilizing the same weighted system, and that this methodology is applied in a consistent manner in order to adhere to mass appraisal legislation. The Respondent referenced the "Hotel / Motel Valuation Guide" (R-1 page 83) which indicates " 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 stabilized net operating income stream in current dollars" thus justifying the 70% weighting applied to the 2008 financial data for the July 1, 2009 valuation date.
- 2) With regard to the issue of parking revenues and expenses, the Respondent argued that all parking revenues and expenses, whether on or off site need to be recognized when utilizing the income approach to valuation. The Respondent further argued that Edmonton Zoning Bylaw 12800 requires that hotels provide one parking space per sleeping unit and that in order to meet the bylaw requirements offsite parking for the subject property is a requirement. The Respondent also referenced Board Order MGB 063/10 with respect to offsite parking utilized by the Westin Hotel in a similar circumstance to that encountered by the subject property.
- 3) With regard to the issue of incentive management fees the Respondent argued that these are not "typical" expenses incurred by other hotels and as such are not included in the valuation of the subject property.
- 4) The Respondent noted that the original complaint form listed thirteen issues as grounds for appealing the 2010 assessment of which only three were brought forward to the actual hearing. The Respondent indicated that considerable time and expense is incurred to prepare for the "dropped" issues and that the Respondent may seek costs at a future date within the legislated guidelines.

DECISION

The Decision of the Board is to reduce the 2010 assessment from \$25,985,500 to \$25,261,500.

REASONS FOR THE DECISION

- 1) a) With regard to the issue of the methodology applied to the stabilized weighted income the Board placed greatest weight on the evidence and argument provided by the Respondent. The Respondent's approach of utilizing a 10%-20%-70% weighting has been consistent over the past few years and is applied to all hotel properties in a fair and equitable manner. While the 70% weighting on the most recent year will have a significant impact heading into a declining economy it will tend to balance over time. The Hotel /Motel valuation guide (R-1, page 83) supports placing the most weight on the most recent years performance for a hotel performing on a stable basis which would apply to the subject property.

b) The Complainant's request to revise the weighting to 30%-40%-30% was primarily a matter of opinion and not supported by the evidence presented to the Board.
- 2) With regard to the issue of parking revenues and expenses the Board finds that it is appropriate to include in the assessment the revenues and expenses associated with the off site parking as it is a requirement of the zoning bylaw in order to operate as a hotel in the City of Edmonton. The Board placed greatest weight on the Respondent's evidence R-1, pages 179-187 which dealt with this very issue in determining that "the off site parking is a requirement of the bylaw and as such generates income directly related to the hotel business. Under the Income Approach to Value and in accord with the Hotel Valuation Guide, this income was properly considered by the Respondent in their valuation of the subject property."
- 3) With regard to the issue of incentive management fees the Board finds that hotel performance is a function of management and that incentives available to management staff may have a significant effect on the hotel's income. The Hotel/Motel Valuation Guide recognizes management fees as an expense and the Board finds that incentives provided are merely an extension of those fees. The Complainant provided evidence (C-1, page 43) which indicated that the Fairmont Hotel Macdonald also paid incentive management fees. Neither party provided evidence that would support any other hotels paying incentive management fees, however that may be merely a result of the reporting methodology employed by a particular hotel. While the subject property chooses to isolate these fees as a separate line item other hotels may have them included in the overall management fees being reported. The Board notes that the net operating income for the subject property increased over the years the incentive management fees were offered. The management fees for the subject property when combined with the incentive management fees stabilize over the three year period at 4.09% of total revenue vs an industry typical fee of 3.5%. The Board revised the management fee utilized in the pro forma for the subject property (R-1 page 176) to 3.85% or 10% above typical to a revised value of \$374,423.

DISSENTING OPINION AND REASONS

There were no dissenting opinions.

Dated this 9th day of August, 2010 A.D. at the City of Edmonton, in the Province of Alberta.

Presiding Officer

CC: Municipal Government Board
Centre Suite Holdings Edmonton Ltd