



ASSESSMENT REVIEW BOARD

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NOTICE OF DECISION NO. 0098 552/10

Sawridge Inns (Edmonton) Ltd
17416 111 Avenue
Edmonton, AB T5S 0A2

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 Composite Assessment Review Board (CARB) from a hearing held on October 28, 2010, respecting a complaint for:

Roll Number 4120218	Municipal Address 4235 Gateway Boulevard NW	Legal Description Plan: 9020451 Block: 1A Lot: 1
Assessed Value \$17,183,500	Assessment Type Annual - New	Assessment Notice for 2010

Before:

Hatem Naboulsi, Presiding Officer
George Zaharia, Board Member
Judy Shewchuk, Board Member

Board Officer: Annet N. Adetunji

Persons Appearing: Complainant

Michael McKinney, Sawridge Group
Jim Hill, Sawridge Group
Jonas Locke, Altus Group

Persons Appearing: Respondent

Chris Hodgson, Assessor, City of Edmonton
Cameron Ashmore, Barrister & Solicitor, City of
Edmonton

PROCEDURAL MATTERS

Upon questioning by the Presiding Officer, the parties present indicated no objection to the composition of the Board.

PRELIMINARY MATTERS

There were no preliminary matters.

BACKGROUND

The subject property, built in 1991, is a five-storey, full service hotel with 137 rooms, a restaurant/lounge, meeting/banquet facilities, two whirlpools, and a fitness room. It is located in south Edmonton on Gateway Boulevard backing onto the Canadian Pacific rail lines, sitting on a total of 2.62 acres of land. The Complainant purchased the property in June 2008 for \$25,000,000 including a total of three lots.

ISSUES

1. What is the appropriate market value of the subject property?
2. 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?
3. Should the assessment of \$1,472,000 for lot 2A which is on a separate roll number, be subtracted from the value of the hotel as the land is currently utilized by the hotel for parking?
4. Should the amount of \$1,483,370 identified by the Complainant as “Outstanding Cap Exp for Renovation” be excluded from the 2010 assessment of the subject property?
5. Is the 10% capitalization rate used by the Respondent too low?

LEGISLATION

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

1. The Complainant submitted a 61 page appraisal completed by Altus Group (Exhibit C-1). After calculating values of the subject property by utilizing the income approach and direct comparison approach, and providing a supplementary analysis, the Complainant established a value \$11,350,000 or \$82,846 per room for the subject property.
2. The subject property is deemed to be in good overall condition. In 2005 and 2006, \$1,500,000 was spent on capital improvements including guest room and corridor

renovations. A further major upgrade was undertaken in 2009 at a cost of \$3,200,000 that included renovation of the common areas and restaurant.

3. The Complainant stated that at the time of the purchase of the subject property in June 2008, it was known that the Holiday Inn flag would be removed by the end of 2008. However, the flag was removed by August 2008.
4. The Complainant also submitted two operating financial statements, one for the period from June 9, 2008 (when the Complainant assumed ownership) to December 31, 2008 and the other for the six-month period ending June 30, 2009 (Exhibit C-2). The Complainant argued that the financial information for the first six months of 2009, being the most recent information, should be used to capture the negative effects of the economic downturn, the renovations, and the early removal of the Holiday Inn flag.
5. The Complainant submitted that the income approach is the appropriate method to evaluate the subject property which is income producing “because it most closely reflects the investment rationale and strategies of the typical investor” (C-1, p.37). In arriving at a capitalization rate of 10.75%, the Complainant provided six comparable properties that were sold between August 2007 and February 2009, although a capitalization rate was not available for the February 2009 sale. The six sales comparables included the sale of the subject property which occurred in June 2008 with a stabilized capitalization rate of 9.9%. The capitalization rates ranged from 8.36% to 11.41% and, considering all factors, the Complainant chose 10.75% as the appropriate capitalization rate to be used in establishing value for the subject property (C-1, p.54).
6. The Complainant also submitted that a hotel occupancy rate of 65% and an Average Daily Rate (ADR) of \$130.00 should be used to calculate a stabilized Net Operating Income (NOI) (C-1, p.40). The stabilized NOI of \$1,749,261, when capitalized at the chosen capitalization rate of 10.75%, results in a stabilized value of \$16,272,198. The Complainant then deducted the amount of \$1,483,370 for outstanding capital expenses for renovations to arrive at a final (rounded) value of \$14,800,000 (C-1, p.54).
7. As a cross check to the income approach, the Complainant suggested the direct comparison approach. Using the data from the sales of six comparable properties between August 2007 and February 2009, the Complainant calculated a stabilized unit value of \$120,000 per room, based on the subject’s 137 rooms. The resulting value was \$16,440,000 and, after subtracting \$1,483,370 for outstanding capital expenses for renovations, a final (rounded) value of \$15,000,000 was arrived at (C-1, p.56).
8. The Complainant’s appraisal report included a Supplementary Analysis (C-1, p. 59-60) to determine the net income for assessment. It was stated that for purposes of taxation, the City of Edmonton determines the assessed value for a hotel/motel property by allocating value to three components: 1) management, business and other tangibles; 2) furniture, fixtures, and equipment (FF&E); and 3) real estate. Adjustments are then made to the NOI. Accordingly, the Complainant deducted 15% of the NOI before fixed expenses and management fees for FF&E/capital allowance in the amount of \$340,843, and 1.5% of NOI before fixed expenses and management fees in the amount of \$34,084 for intangibles from the NOI of \$1,749,261 for a “Net Income for Assessment” in the amount of \$1,374,334. This amount was then capitalized at the Complainant’s selected rate of

10.75% for a stabilized value of \$12,784,505. Again \$1,483,370 was deducted for outstanding capital expenses for renovations to arrive at a final value of \$11,300,000.

9. The Complainant stated that lot 2A, which is adjacent to the subject property, is used for parking for hotel guests, and that there was no excess land. It was argued that since lot 2A is required for parking, the 2010 assessed value of the lot in the amount of \$1,472,000 should be deducted from the assessment of the subject property.
10. In summary presentation, the Complainant asked the Board to reduce the 2010 assessment of the subject property to \$11,350,000.

POSITION OF THE RESPONDENT

1. The Respondent submitted a 196 page assessment brief (Exhibit R-1) and drew the Board's attention to the standard hotel/motel valuation which details the stabilized revenue and typical expenses applied to all hotels and motels in the City (R-1, p. 164). For the current assessment, the Respondent used an occupancy rate of 75.8%, an Average Daily Rate of \$128.95 per room, and a capitalization rate of 10% (R-1, p. 166-167).
2. The Respondent explained that to arrive at the NOI of a hotel/motel property, actual revenues are stabilized over the three years preceding the valuation date with most weight given to the most recent year. The current weighting utilized by the City of Edmonton is 70% for 2008, 20% for 2007, and 10% for 2006. "Using this method helps capture industry trends and helps eliminate the impact of an abnormal year within the hotel industry" (R-1, p.164). Consequently, the Respondent stated that they are unable to use the Complainant's 2009 financial information.
3. Once the NOI is determined, the City applies a deduction of 15% for FF&E for full service hotels and a 1.5% deduction for business intangibles (R-1, p. 166). In the case of the subject, the resulting assessable NOI was \$1,713,833. This amount was capitalized at a rate of 10%, derived from recent hotel sales, a rate that is consistent throughout each hotel class (R-1, p. 165).
4. The Respondent submitted nineteen 2010 equity comparables that included the subject property. Of these equity comparables, three properties located in south/southeast Edmonton, where the subject is located, had assessed values that ranged from \$122,030 to \$131,132 per room with the subject assessed at \$125,097 per room (R-1, p. 178).
5. The Respondent argued that the sale of the subject property is the best indicator of market value, citing an Alberta Court decision that determined "that the recent sale was an indicator of market value" (R-1, p.17).
6. The Respondent pointed out that if the franchise fee expense had been removed, the resulting assessment would have been \$19,519,500 (R-1, p.169). However, the Respondent did not request an increase in the assessment, asking the Board to confirm the 2010 assessment of \$17,183,500.

7. With regards to lot 2A, the Respondent stated that the Complainant had provided no evidence that the available parking on lot 2A was legally required for the needs of the subject property. In the absence of such evidence, the Respondent stated that the assessed value of lot 2A, in the amount of \$1,472,000, should not be removed from the assessment of the subject property.

DECISION

The decision of the Board is to confirm the 2010 assessment of \$17,183,500.

REASONS FOR THE DECISION

1. The Board finds that the June 2008 sale of the subject property in the amount of \$25,000,000 is a strong indicator of market value. This price was inclusive of the improvement and three lots. In a decision by the Alberta Courts in 697604 Alberta Ltd. v. Calgary (City), 2005 ABQB 512, on overturning a Municipal Government Board Order, the court stated that “the recent sale was an indicator of market value and therefore should have been considered by the Board” (R-1, p. 17).
2. The Board accepted the Respondent’s standard hotel/motel valuation methodology. The Respondent stabilizes actual revenue based on the three preceding years with the most weight, 70%, on the most recent year, 20% on the second most recent year, and 10% on the third most recent year. This procedure is applied to all hotel/motel properties in a fair and equitable manner. For the 2010 assessment, with a valuation date being July 1, 2009, the three most recent years would be 2008, 2007, and 2006 (R-1, p. 164).
3. The Board did not accept the Complainant’s argument that the revenues from the first six months of 2009 should be considered since this would be a departure from how all other hotel/motel properties are treated. As well, if there are demonstrable reductions in revenue for the full twelve month period of 2009, this will be reflected in the 2011 assessment.
4. While the Board does not dispute the Complainant’s position that the economic downturn at the end of 2008, the loss of the Holiday Inn flag, and major renovations had impacted revenues, the impact of these events is reflected in the 2010 assessment of \$17,183,500, which is a reduction from the original 2009 assessment of \$20,052,500.
5. The assessment of the subject property at \$125,427 per room falls within the assessment range from \$122,030 to \$131,132 per room (an average of \$125,273 per room) of the three other full service hotels located in south/southeast Edmonton.

6. The Board did not accept the Complainant's position that the outstanding capital renovation expenses of \$1,483,370 should be deducted from the assessment. In evidence, it was stated that the major renovations that were started in April 2009 were completed by December 31, 2009. Section 289 (2) of the MGA States: *"Each assessment must reflect (a) the characteristics and physical condition of the property on December 31 of the year prior to the year in which a tax is imposed under part 10 in respect of the property,"*. Since it was acknowledged that the renovations had been completed by December 31, 2009, there is no reason not to include the value of the renovations, whether full payment had been made or not.
7. The Board finds that the Complainant failed to demonstrate that lot 2A is legally required and necessary as additional parking for the subject property. Therefore, the Board agrees with the Respondent that the \$1,472,000 assessed value of lot 2A should not to be deducted from the 2010 assessment of the subject property.
8. The Board is persuaded that the 2010 assessment of the subject property at \$17,183,500 is fair and equitable.

Dated this 12th day of November, 2010, at the City of Edmonton, in the Province of Alberta.

Presiding Officer

This Decision may be appealed to the Court of Queen's Bench on a question of law or jurisdiction, pursuant to Section 470(1) of the Municipal Government Act, R.S.A. 2000, c.M-26.

cc: Municipal Government Board