



## **ASSESSMENT REVIEW BOARD**

MAIN FLOOR CITY HALL  
1 SIR WINSTON CHURCHILL SQUARE  
EDMONTON AB T5J 2R7  
(780) 496-5026 FAX (780) 496-8199

### **NOTICE OF DECISION NO. 0098 74/10**

George Muthu  
3815 Gateway Blvd  
Edmonton, AB T6J 5H2

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 July 28, 2010 respecting a complaint for:

<b>Roll Number</b> 10068887	<b>Municipal Address</b>	<b>Legal Description</b> Plan: 6531KS Block: 1 Lot: 2/ SW 9-52-24-4
<b>Assessed Value</b> \$4,895,000	<b>Assessment Type</b> Annual – New	<b>Assessment Notice for:</b> 2010

#### **Before:**

Jack Schmidt, Presiding Officer  
James Wall, Board Member  
Jasbeer Singh, Board Member

#### **Board Officer:**

Segun Kaffo

#### **Persons Appearing: Complainant**

George Muthu

#### **Persons Appearing: Respondent**

Shawna Pollard, Assessment and Taxation Branch  
Cameron Ashmore, Law Branch

#### **PRELIMINARY MATTERS**

None

## **ISSUES**

Does the application of a typical cap rate, occupancy rate and per room rate fairly represent market value for the subject property?

## **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 submitted that the subject assessment is too high when regard is given to financial statements provided by the previous owner of the property. In 2009 the total income was \$608,094. Typically, the value of a motel type property is 4 times the annual revenue. In this case an approximate value is estimated at \$2,432,000.

During the highest market period in 2007 total revenue was \$981,978 and by applying the 4 times factor, an indicated market value would be \$3,928,000. Vacancy rates for hotel/motel type property were going up during 2009. The subject property was experiencing vacancy rates of 50%, with daily room rental rates ranging from \$30.00 to \$60.00. Some units are rented on a monthly basis at a daily rate between \$30.00 and \$40.00. This property was purchased in 2010 for \$3,000,000

For purposes of this assessment a value closer to 50% of the assessment under complaint should be determined.

## **POSITION OF THE RESPONDENT**

The Respondent submitted that there is a distinction between business value and real estate value. In this case it is the real property value which is at issue. This property could have been utilized the same as similar motel type properties.

To determine the estimate of market value, the income approach to value was applied. This approach incorporates typical room rates, expense ratios, vacancy rates and capitalization rates. These rates were determined based on data provided by managers of similar properties. In this case the subject property's manager did not provide the requested information. As a result, information provided by managers of similar properties was relied on. While the property did

sell in 2010, the sale was not available as of the assessment date and therefore cannot be considered in determining the assessed value.

It should be noted that the property is encumbered with a number of title caveats etc. which may have had an impact on the purchase price. It was argued that the financial statements as supplied by the Complainant were not audited statements and may have been clouded by various legal occurrences which were applicable to the property. In particular, it was alleged and subsequently proven that accommodation was being supplied in exchange for stolen property.

The assessment was based on the typical market transactions for similar properties and the assessment should be confirmed.

## **FINDINGS**

The application of a typical cap rate and occupancy rate and per room rate as determined by the assessor does not fairly represent market value for the subject property.

## **DECISION**

The decision of the board is to allow the complaint and reduce the assessment to \$3,589,000.

## **REASONS FOR THE DECISION**

The assessment based on the income approach to value considers typical market conditions. The question to be answered, is the subject property typical in relation to the similar properties as supplied by the Respondent?

To answer this question the board considered the following:

1. Run-down condition of the property will have an impact on clientele and income, both in terms of occupancy and per diem rates;
2. Negative publicity over the years will also impact the quality of clientele, room rates, occupancy and even mode of payment;
3. Non-renewal of operating license will hinder reasonable business development and promotion efforts, and thereby may negatively affect market value;
4. Capitalization rate of 11% applicable to typical well functioning properties will not cover the atypical risk associated with the subject.

When regard is given to these facts the board is convinced that this property is not typical in relation to the comparable properties.

It is therefore reasonable to adjust the capitalization rate. An adjusted capitalization rate of 15% is reasonable and will result in a fair assessment in this case.

## **DISSENTING DECISION AND REASONS**

There was no dissenting decision.

Dated this 28<sup>th</sup> day of July, 2010, at the City of Edmonton, in the Province of Alberta.

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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.*

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CC: Municipal Government Board  
393660 Alberta Ltd.