



ASSESSMENT REVIEW BOARD

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NOTICE OF DECISION 0098 83/11

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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 20, 2011, respecting a complaint for:

Roll Number	Municipal Address	Legal Description	Assessed Value	Assessment Type	Assessment Notice for:
7099351	10302 82 AVENUE NW	Plan: I Block: 68 Lot: 1 / Plan: I Block: 68 Lot: 2	\$1,928,000	Annual Revised	2011

Before:

Don Marchand, Presiding Officer
Brian Carbol, Board Member
Tom Eapen, Board Member

Board Officer: Kristen Hagg

Persons Appearing on behalf of Complainant:

Dan Wiart, Kingston Ross Paskak LLP

Persons Appearing on behalf of Respondent:

Cam Ashmore, City of Edmonton, Law Branch
Deanne Bannerman, City of Edmonton, Assessor
Chris Hodgson, City of Edmonton, Assessor
Shawna Pollard, City of Edmonton, Observer

PROCEDURAL MATTERS

Upon questioning by the Presiding Officer the parties before the Board indicated no objection to the composition of the Board. In addition, the Board members indicated no bias with respect to this file.

PRELIMINARY MATTERS

There were no preliminary matters.

BACKGROUND AND FACTS NOT IN DISPUTE

The subject property is the site of the Strathcona Hotel, located on Whyte Avenue and constructed in 1891. The property has a historic designation. The hotel has been stratified under the label of a “Beverage/Tavern Hotel” or a “Gallorage Hotel” and the assessment is developed using the combination of three different components; the lounge, the barber shop, and the rooms.

The assessment has been broken in to the various components as follows:

• Rooms component	\$1,167,072	
• Lounge component	\$ 700,776 *	
• Barber Shop Component	<u>\$ 60,239 *</u>	
	\$1,928,087	rounded to \$1,928,000

*The Complainant takes no issue with the valuations apportioned to the lounge and barber shop components.

ISSUE(S)

1. Should the subject hotel receive the typical expenses allotted to motels based on the stabilization of the actual expenses?
2. A 10% share transaction took place in December, 2009. Does it provide a reliable indication of the Hotel’s value?

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 AS TO EXPENSE ALLOCATIONS:

The following table sets out the party's difference in percentage allocation.

	Respondent	%	Complainant	%	
Revenues					
Room revenue	330,042	100.0%	330,042	100.0%	agree
Operating Expenses					
Room	82,511	25.0%	199,361	60.4%	1.
Admin & Gen.	13,202	4.0%	32,881	10.0%	2.
Rep. & Main	23,109	7.0%	44,803	13.6%	3.
Utilities	33,004	10.0%	33,004	10.0%	agree
	151,820	46.0%	310,049	93.9%	
Insurance	6,601	2.0%	22,803	6.9%	4.
Taxes	24,366	7.4%	24,366	7.4%	agree
NOI	147,255	44.6%	(-27,176)	-8.2%	

It is the Complainant's position that the room portion, the second and third floors, does not contribute any value to the total complex.

The Complainant reviewed the same three years, 2007 through 2009, and applied the same weighting as the municipality. The allocations of the expenses identified in the chart above as 1 through 4 are as follows:

1. The subject is not a motel and as a hotel it requires 24 hour desk staffing and a manager, along with the cleaning staff. Based on the Complainant's review of the staffing and salaries paid a minimum of five staff is required and the municipality's amount of \$82,511 becomes unrealistic.
2. The total actual expenses of approximately \$300,000 for supplies, professional fees, office, meeting, and laundry were allocated at 36.5% to the rooms and 63.5 % to the lounge. This, the Complainant argued is more realistic.
3. The subject's age and use increase its state of repairs. The wood frame structure is a provincial historic resource. It cannot be demolished and any renovations must follow strict guidelines. These attributes increase the cost of operations.
4. The building is extremely old, has no firewalls, no sprinklers, is of wood construction and as such has higher insurance costs than the ones used for the motels.

POSITION OF THE COMPLAINANT AS TO THE 10% SHARE TRANSACTION:

On December 23, 2009, 10% of the shares sold for a total of \$75,000. The Complainant submits that this was an arm's length transaction and proposed that by applying business valuation techniques it is possible to work backwards from the price paid for the shares of the company and allocate that price to the assets and liabilities of the company to arrive at the implied value hotel property.

The Complainant provided a balance sheet, prepared just prior to the share offering that implied the business value of the land and buildings as at December 23, 2009 to be \$1,157,500. This is the amount upon which the share transaction was calculated.

The value of \$1,157,500 was adjusted to July 1, 2010 with an 18% market adjustment factor. The adjustment was based on the increase in office rent on Whyte Avenue between the first and third quarters of 2010 as reported by Avison Young.

The implied value adjusted to July 1, 2010 is concluded at \$ 1,365,850 – (rounded to **\$1,366,000**), the Complainant's requested assessment.

POSITION OF THE RESPONDENT AS TO EXPENSE ALLOCATIONS:

The Respondent provided the details pertaining to the 2011 City of Edmonton Hotel/Motel valuation procedures. The subject has been stratified as a Beverage Hotel/Tavern Hotel which contains the comment that a *majority of business and income comes from beverage operations*. Typically beverage operations amount to around 70% of revenue.

The rooms component valuation was developed using the income approach expense parameters concluded from the analysis of 11 motels considered similar to the subject's rooms section. Three years of actual income were used in the analyses. The stabilized weighting applied was 70% for year 2009, 20% for year 2008, and 10% for year 2007. Both parties applied the same weighting.

The typical expense percentages concluded from the analysis of the 11 motels was: room expense 25%, administration & general 4.0%, repairs & maintenance 7.0%, utilities 10.0% and insurance 2.0%. The Respondent submits that the subject's room section expense percentages were considered to be equivalent to the typical of the comparable motels.

The Respondent advised that this was the same process undertaken in 2011 for other beverage hotels and provided a chart listing 10 beverage hotels that show a value per room rates in the range of \$12,937 to \$71,061; the average being \$31,274 and the median being \$25,325 per room. The subject's per room rate is \$25,371.

POSITION OF THE RESPONDENT AS TO THE 10% SHARE TRANSACTION:

The Respondent submits that the offering of 50 shares (10% of the shares of the company that hold the Strathcona Hotel) for sale was to the other share holders within the ownership group and advises that the sale occurred outside of the open market.

The Respondent provided the CARB with Ministerial Order L: 231/10 wherein it is stated:

Partial interest sales are normally excluded from ratio studies; however, exceptions can be made provided that the partial interest conveyed equals a meaningful percentage of the full rights in the Property (generally 25% or more).

The Respondent submits that the application of the business valuation techniques shown contain several assumptions regarding the sale of shares, and are not a measure of the real property to be assessed.

DECISION

The assessment of roll number 7099351 is revised to \$1,661,500

REASONS FOR THE DECISION

The CARB agrees with the Respondent that the business valuation techniques; working backwards from the price paid for shares of the company is not applicable to the valuation of the room component only of the subject hotel.

The Municipality has taken into consideration the valuation and other standards set out in the regulations, the procedures set out in the regulations, and the assessments of similar property in the municipality.

The Parties for the most part find that there is reasonableness to the methodology applied in the preparation of the assessment. The operating expense allocation differences have been identified in the comparison chart. Both Parties have undertaken the review of three years of actual expenses and have applied the same weighting to the different years.

The CARB is persuaded by the historic and atypical nature of the subject's hotel room section in comparison to the 11 motels used to the Municipalities typical operating expense analysis. It is reasonable to have additional managers and staff expenses as the subject hotel does remain opened on a 24 hour basis. It is reasonable to expect an atypical amount for the subject's insurance for the reason cited by the Complainant. Because of the subject's age, historic designation, repairs and maintenance upgrading or renovations are all going to be atypical to the comparisons used in developing the typical allowances.

Dated this 11th day of August, 2011, at the City of Edmonton, in the Province of Alberta.

Don Marchand, 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: STRATHCONA HOTEL EDMONTON LTD