

Decision # CARB-0262-251/2011
Roll: 2941960 & 920140
Complaint ID: 251 & 250

COMPOSITE ASSESSMENT REVIEW BOARD DECISION

HEARING DATE: September 22, 2011

PRESIDING OFFICER: M. CHILIBECK

PANEL MEMBER: I. RONNIE

PANEL MEMBER: A. GAMBLE

BOARD CLERK: S. PARSONS

BETWEEN:

Royal Host Hotels GP Inc.

Represented by: P. Chmeleski of Cushman & Wakefield Property Tax Services (Agent)
Complainant

-And-

CITY OF RED DEER

Represented by: R. Kotchon and A. Meckling, Property Assessors
Respondent

These are two complaints to the Red Deer Regional Assessment Review Board and heard by the Composite Assessment Review Board in respect of two property assessments prepared by the Assessor of The City of Red Deer and entered in the 2011 Assessment Roll as follows:

Roll No. 2941960
Address: 7474 – 50 Av.
Assessment: \$2,866,500.
Property: Super 8 North

Roll No. 920140
Address 2807 - 50 Av.
Assessment: \$4,813,500.
Property: Travelodge Hotel

Board's Decision in Respect of Procedural or Jurisdictional Matters:

Neither party had any objections to any member of the Board hearing the complaints.

The Respondent raised a procedural matter at the outset of the hearing objecting to two documents sent by the Complainant as rebuttal to the Respondent's disclosure; one document is a copy of the property listing for sale for the Super 8 North Hotel and the second is an e-mail to Mr. Chmeleski from the property owner dated September 15, 2011. These documents were sent by the Complainant on

September 15, 2011, and are considered by the Respondent to be filed after the deadline for filing rebuttal evidence. The Complainant was advised in writing by the Clerk, Red Deer Regional Assessment Review Board, that the deadline for the Complainant's rebuttal for the hearing scheduled on September 22, 2011 was September 14, 2011.

The Board decided that according to section 9(2) of Matters Relating to Assessment Complaints Regulation (MRAT) that the aforementioned documents were not disclosed in accordance with section 8 of MRAT and therefore would not be accepted as evidence at this hearing.

Section 8(2) of MRAT states as follows.

"the complainant must, at least 7 days before the hearing date, disclose to the respondent and the composite assessment review board the documentary evidence, ---"

Section 9(2) of MRAT states as follows.

"A composite assessment review board must not hear any evidence that has not been disclosed in accordance with section 8."

This decision was delivered orally by the board before the commencement of the merit hearing.

Property Description:

The Super 8 North Hotel is located in north Red Deer on Gaetz Av. (50 Av.) and 74 St. and is considered a limited service hotel. This property consists of a hotel building constructed in 1978 with 72 rooms situated on a parcel of land containing 1.50 acres.

The Travelodge Hotel is located in south Red Deer on Gaetz Av. (50 Av.) at 28 St. and is considered a limited service hotel. This property consists of a hotel building constructed in 1976 with 135 rooms situated on a parcel of land containing 1.78 acres.

Issues:

At the time the complaints were filed, the Complainant identified the matter of the assessment under complaint and listed several grounds or reasons for the complaint. At the commencement of the merit hearing, the Complainant advised that there is one reason for each of the complaints. It is as follows.

- I. The subject properties should be allowed extra additional/external depreciation.

Complainant's Requested Values:

Roll No. 2941960	Address; 7474 – 50 Av.	Assessment:	\$3,902,000 per complaint \$2,146,000 per disclosure
Roll NO. 0920140	Address: 2807 – 50 Av.	Assessment:	\$1,130,000 per complaint \$3,215,000 per disclosure

Board's Findings in Respect of the Issue:

Both subject properties are valued by the depreciated replacement cost method. The Respondent recognized additional depreciation to the improvements by allowing 25% for the Super 8 Hotel and 10% for the Travelodge Hotel.

The Complainant requests that the additional depreciation to the improvement be increased to 58% for the Super 8 Hotel and to 53% for the Travelodge Hotel and agrees with the Respondent's value for the land at \$1,306,800 for the Super 8 Hotel and at \$1,559,400 for the Travelodge Hotel.

I. Additional External Depreciation

The Complainant asserted that the revenue for each of the hotels has declined significantly from 2005 to 2009 due to the increase in supply of hotel rooms and the decline in economic activity in The City of Red Deer and surrounding area. At the start of 2005 there were 441 hotel rooms. The number of hotel rooms increased to 615 rooms at the beginning of 2006 and 694 by mid 2006. This increase in hotel rooms corresponds with the decrease in revenue for each of the subject properties.

The total revenue of Super 8 Hotel decreased from \$1,358,080 in 2005 to \$1,048,703 in 2007 and \$565,279 in 2009.

For the Travelodge Hotel, the total revenue decreased from \$2,054,946 in 2005 to \$1,663,599 in 2007 and \$973,576 in 2009.

The Complainant determined that the revenue declined by 58% for the Super 8 and by 53% for the Travelodge from 2005 to 2009 and applied these percentages as external depreciation allowance to the depreciated (normal depreciation) replacement cost for each improvement resulting in a value for the land and improvements of \$2,145,998 for the Super 8 (or \$29,805 per room) and \$3,215,666 (or \$23,819 per room) for the Travelodge. The Board was not persuaded this method is an acceptable way to determine additional/external depreciation. The Board believes that the best way to determine total depreciation is by using generally accepted assessment/appraisal methods, either the capitalized income method or the direct sales comparison method.

The Complainant used a direct comparison approach to determine the value of the subject properties in support for their claim for additional external depreciation by using the Offer to Purchase for the Super 8 in September, 2010 at \$1,900,000 or \$26,388 per room. This rate applied to the Travelodge with 135 rooms results in a value of \$3,562,000. The Board does not accept this valuation. Firstly, this is not a true or valid direct sales comparison method. The sales comparison method, if possible, should be of several similar properties that have sold and meet the definition of market value. Market value is defined in the Municipal Government Act (MGA) as follows.

“market value” means the amount that a property, as defined in section 284(1)(r), might be expected to realize if it is sold on the open market by a willing seller to a willing buyer:

The Offer to Purchase is not a completed sale and not a valid indicator of market value. In this case the Super 8 had a willing buyer but did not have a willing seller and otherwise the Board was not provided with any information regarding the circumstances of the Offer to Purchase. Furthermore, the Offer to Purchase appears to be incomplete; the acceptance date is incomplete, the subject to financing condition

has no deadline and there is no signature of the owner of the property refusing to accept the offer. Based on the forgoing the Board placed limited weight on the Offer to Purchase and the per room valuation method.

The Complainant used the capitalized income method to value both subject properties to support their claim for additional external depreciation. In doing so, the recent three years of gross income was used (2009, 2008 & 2007) and weighted at 60%, 25% and 15% respectively to determine the gross annual normalized income, deducted for expenses at 70% of gross income to determine the net operating income that was capitalized at 9.75% and deducted 10% for furniture, fixtures and equipment (FFE). In so doing, the Complainant determined that the value of the Super 8 to be \$2,068,000 and for the Travelodge to be \$3,390,000. The Complainant asserted that the difference between these values and the assessments for each of the subject properties is the extra depreciation that should be granted to recognize the declining financial performance due to the economic conditions, which includes the increase in the number of hotel rooms in recent years that has affected the subject properties adversely. The Respondent did not provide any evidence or argument in rebut to the Complainant's income calculations. The Complainant's calculations persuaded the Board that the subject properties should be granted extra additional depreciation.

On being questioned by the Board, the Respondent advised the Board that, when valuing other hotels by the income method, three years of gross income is used and each year is given equal weighting to determine the stabilized annual gross income. The Respondent also stated that the subject hotels are two of the few hotels valued by the replacement cost method. The Board understands that the main reason for using the replacement cost method in this case is because the property owners did not supply income information in 2010 as requested by the Respondent and therefore were not able to calculate a three-year stabilized income. However, the Complainant sent the requested information on October 15, 2010. The Respondent did not provide a credible argument that the subject properties should be valued by the cost method. The Board finds that in using the income method to calculate the value for the subject hotels, the three recent years of income should be weighted equally to determine the stabilized gross annual income and to be consistent with the determination of stabilized gross annual income of other hotels in the City of Red Deer.

The income valuation method produces a reliable estimate of value that takes into consideration the actual financial performance of the subject properties and inherently captures total depreciation of the improvements. Also, the methodology is consistent with the valuation of most other hotels in The City of Red Deer. Total depreciation is defined as a loss in value from all causes and it is commonly understood in assessment and appraisal of real estate that total depreciation of an improvement is further defined as the difference in value between replacement cost new and market value as of the same date. Total depreciation includes normal and abnormal physical and functional depreciation and external (or economic) depreciation.

The subject properties are of 1978 and 1976 vintage and therefore, because of the age of the subjects, to estimate depreciation is problematic. The Board believes that the best way to determine total depreciation is by using generally accepted assessment/appraisal methods, in this case either the capitalized income method or the direct sales comparison method. Because there are no recent sales of similar property in Red Deer it is not possible to use the direct sales comparison method. However there is financial data available for the subject properties that make it possible to use the capitalized income method and this method has been used to value most other hotels in Red Deer.

The Board does not find the Respondent's eight hotel sales in Alberta, one of which is in Red Deer, persuasive to confirm the assessments of the subjects. These hotels all are valued greater than the subjects and no additional information was provided to determine their similarity to the subjects, such as age, condition, or room rates. The value per room of these hotels ranges from \$50,070 to \$80,445, the later being for the Ramada Inn in Red Deer. These values are significantly greater than the assessed value for subjects at \$39,812 and \$35,655 per room which indicates to the Board the comparables differ from the subjects significantly. Furthermore, the Board believes it is not reasonable to draw comparisons from other municipalities unless information is provided to determine the similarity of the municipalities to The City of Red Deer, such as size, economic performance and market activity. Therefore the Board placed little weight on these comparables.

The Respondent provided seven hotel assessment comparables in Red Deer ranging in assessment from \$38,151 to \$79,567 per room in support of their assertion that the assessment for the subject hotels is fair and equitable. These assessments, except for one at \$38,151, are also significantly greater than the subjects and no additional information was provided to determine their similarity to the subjects, such as age or room rates. The Board notes that the comparable at \$38,151 per room for the Motel 6 falls in between the assessments for the subject properties. The Board understands this comparable is significantly newer, at approximately five years old, than the subjects at approximately 33 years old. This indicates to the Board that the subjects are over-assessed in comparison. However, because of the lack of sufficient information on the comparables to determine their comparability to the subject the Board placed little weight on these assessment comparables. Section 2(c) of Matters Relating to Assessment and Taxation Regulation (MRAT) requires that the market value assessment for the subject properties must reflect typical market conditions for properties similar to the subject properties. Without the assessment information for the comparables, such as the valuation model, variables and factors, the Board is not in a position to place significant weight on the comparables in making their decision.

Based on the foregoing, the Board placed weight on the Complainant's income valuation method, however changed the stabilized annual gross income to reflect equal weighting to each of the three recent years of income. In using the adjusted gross income and using the Complainant's expense allowance, capitalization rate and FF&E allowance, the Board determined the value for the Super 8 to be \$2,385,000 and for the Travelodge to be \$3, 832,000. To determine the amount of external depreciation, the Board used the building residual technique whereby the land value for each of the subject properties was deducted from each of the above values (improved value) to determine the value attributable to the improvements (buildings) of each subject property, then deducted the depreciated value of the improvements (without additional/external depreciation) as calculated by the Respondent. The results indicate that the additional depreciation is 46% for the Super 8 and 35.4% for the Travelodge versus 25% and 10% respectively as allowed by the Respondent.

DECISION

Based on the foregoing the Board's decision is to change the assessment for the subject properties as follows:

Roll: 2941960 Address: 7474 -50 Av. Assessment: \$2,385,000

Roll: 0940140 Address: 2807 – 50 Av. Assessment: \$3,832,000

Dated at The City of Red Deer in the Province of Alberta this 26th day of October, 2011.



M. Chilibeck, 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.

Appendix ADocuments Presented at the Hearing
And considered by the Board

<u>NO.</u>	<u>ITEM</u>
IC(a)	Complainant's Disclosure for Roll No. 2941960
IC(b)	Complainant's Disclosure for Roll No. 920140
IC(c)	Complainant's MGB 029/06 (Edmonton Plaza Hotel)
IC(d)	Complainant's Offer to Purchase for Roll No. 2941960
2R	Respondent's Disclosure for Roll Nos. 2941960 & 920140
3C(1 of 3)	Complainant's Rebuttal for Roll Nos. 2941960 & 920140
3C(2 of 3)	Complainant's MGB 103/07 (Sunrise Village (Lethbridge))
3C(3 of 3)	Complainant's 2000 ABQB 594 (Mountainview (County))

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Decision No. 0262-251-2011		Roll No. 2941960 & 940140		
<u>Appeal Type</u>	<u>Property Type</u>	<u>Property Sub-Type</u>	<u>Issue</u>	<u>Sub-Issue</u>
CARB	Other	Hotel/Motel	Cost Approach	Depreciation