

County of Wetaskiwin No. 10

**COMPOSITE ASSESSMENT REVIEW BOARD (CARB)
DECISION WITH REASONS**

In the matter of the complaint against the property assessment as provided by the *Municipal Government Act*, Chapter M-26.1, Section 460(4).

between:

Durk Developments Inc., COMPLAINANT

and

County of Wetaskiwin, RESPONDENT

before:

D. H. Marchand, PRESIDING OFFICER

D. Proudlock, MEMBER

L. G. McKeever, MEMBER

This is a complaint to the County of Wetaskiwin No. 10 Composite Assessment Review Board in respect of property assessment prepared by the Assessor of County of Wetaskiwin No. 10 and entered in the 2012 Assessment Roll as follows:

ROLL NUMBER:	111601
LOCATION ADDRESS:	243019 A Highway 13
LEGAL DESCRIPTION:	NE-9-46-24-W4M
ASSESSMENT:	\$1,506,510

This complaint was heard on 16th day of November, 2012 at the County of Wetaskiwin No. 10 offices.

Appeared on behalf of the Complainant:

- Altus Group, Agent represented by Walid Melhem, Senior Consultant

Appeared on behalf of the Respondent:

- Rene Boutin, AMAA, Assessor, County of Wetaskiwin No.10

Preliminary Matters

- [1] Upon questioning by the Presiding Officer, the parties indicated that they had no objection to the composition of the Board. In addition, the Board Members indicated that they had no bias in this matter.

Property Description and Background

- [2] The subject property is known as the Prairie Breeze Inn - a Bed and Breakfast facility with recreational vehicle sites and camping sites located on 78.51 acres, a short distance from the City of Wetaskiwin along highway 13 west. The complex was built in 2004, and consists of a 14-unit motel with a residence, wash house, and a storage building. It is also improved with 61 serviced camp sites and 16 un-serviced camp sites.
- [3] The assessment is made up of three components; farmland, residential, and non-residential. The farmland component has been assigned 54.01 acres and is valued on its productivity rating of \$11,520. There is no dispute to the farmland assessment component.
- [4] The residential component is valued at \$108,400. Land at \$30,230 and improvements at \$77,810. There is no dispute to the residential component.
- [5] The non-residential component is valued at \$1,375,430. Land at \$272,080 and improvements at \$1,103,350. The complainant is requesting this component be reduced to \$665,620.
- [6] The residence exemption provided within the County of Wetaskiwin No.10 amounts to \$11,520. The taxable assessment of 1,494,990 and the exempt assessment of \$11,520 to make up the total assessment of \$1,506,510.

The Issue:

- [7] Is the 2012 assessment correct?

The Complainant's Position:

- [8] It is the Complainant's position that the market value of the subject's non-residential component, being a hotel/motel, is best measured by capitalizing the income that it can generate. The complainant has identified the non-residential component as the hotel and campground portion. The Complainant pointed the CARB to the June 1998- Hotel/Motel valuation guide:

In the assessment of properties in Alberta, the income approach should be used as the primary approach to value hotels and motels.

- [9] The CARB was provided with unaudited revenue and expense statements for the years 2008 to 2011. The complainant removed the office and farmland income from actual income and stabilized them on the basis of 33% to each year. The stabilized total annual revenue was concluded at \$171,272. The stabilized net operating income was concluded at \$32,271 or 18.8% of revenue (81.2% operating expenses). For the valuation of the subject the Complainant advised that the majority of limited service hotels/motels in rural Alberta have net operating incomes from 30% to 35% and since the campground generates almost ½ of the income, and the campground has fewer expenses than the hotel, a 55% operating expense ratio was justified. The effective net operating income was adjusted to \$77,073.
- [10] The Complainant informed the CARB that based on a review of capitalization rates for similar hotel properties used in other towns and cities within Alberta, a capitalization rate of 11% was conclude. The effective net operating income of \$77,073 capitalized at 11% yields a valuation estimate of \$700,659. To this valuation estimate a 5% allowance was applied for the subject's non-assessable items such as beds, silverware, televisions, linens, bedding, etc. The standard deduction of 10% for such items was reduced to 5% because the FF &E (furniture, fixtures, and equipment) allowance applies to the hotel portion, not the campground portion. The hotel and campground portion is concluded at \$665,620. To this value the farmland and residence is to be added ($\$665,620 + \$11,520 + \$108,040 = \$785,180$).
- [11] In summary, the Complainant argued that the Municipality's use of the cost approach makes no measure of the economic conditions that the subject is experiencing as is measured in the income approach. The Complainant again pointed the CARB to the June 1998- Hotel/Motel valuation guide:

In order for a cost approach to work well in the hotel environment, it would be necessary to make appropriate adjustments to the depreciation, obsolescence and land value of the property every year.

The Complainant requested a revised assessment from \$1,506,510 to \$796,700 - a taxable portion of \$785,180 and an exempt portion of \$11,050.

The Respondent's Position:

- [12] The Respondent provided the CARB with the details of the assessment prepared by the use of the cost approach for the subject property. None of the details and calculations supplied to the Complainant and to the CARB was disputed.
- [13] The CARB was advised that the subject has multiple uses and a variety of improvements, including the on-site servicing improvements for the campsites. The property is the only one of its kind within the municipality.
- [14] The cost approach was employed and its use is supported as a method of valuation. The Respondent cited three quotes, one quote being from the International Association of Assessing Officers:

"The cost approach is applicable to virtually all improved parcels and, if used properly, can produce highly accurate valuations."

The other two quotes were from the Appraisal Institute of Canada:

"In any market, the value of a building can be related to its cost."

"If comparable sales are not available, they cannot be analyzed to develop an opinion of the market value of such properties. Therefore, current market indications of depreciated cost or the cost to acquire and refurbish an existing building are the best reflections of market thinking and thus, of market value (or use value)."

[15] In response to questioning, the Respondent advised there was no market adjustment or allowance warranted or given, as there is no market evidence of any existing.

[16] In summary, the Respondent maintained that there were no sales evidence to support the capitalization rates used by other towns and cities in Alberta. There is no evidence showing that these cap rates are correct, how they were calculated, or how they apply to the subject market.

[17] The Respondent concluded by stating there were zero sales submitted in the Complainant's evidence to support the income approach to value and as the income approach cannot be accurately calculated without the analysis of comparable sales, the Municipality requested that the assessment be confirmed at \$1,506,510.

Board's Decision

[18] The 2012 assessment on roll number 111601 is confirmed.

Board's Reasons

[19] The onus rests with the Complainant to provide sufficient evidence to place the assessment in question. The claim is that the cost approach applied to the subject property did not recognize the market or economic obsolescence within the total depreciation applied in the computation of the assessment. The CARB received no market evidence as to this claim or as to the amount that would need to be applied, if any.

[20] The income approach as presented is based on several assumptions; that a 55% expense allowance is reasonable, the capitalization rate of 11% is reasonable, and the 5% FF&E allowance is reasonable. The income capitalized is to satisfy all the non-residential land component and without market evidence or comparable sales that support the assumption, the CARB places more weight to the cost approach.

[21] The subject is a 2004 development yet the CARB did not receive a cost of development statement, a permit value, or any construction costs for the subject's improvements. In their absence, the CARB is left to consider only the Marshall & Swift Manual cost estimates.

DATED AT THE COUNTY OF WETASKIWIN THIS 12th DAY OF DECEMBER 2012.



D. H. Marchand
Presiding Officer

An appeal may be made to the Court of Queen's Bench on a question of law or jurisdiction with respect to a decision of an assessment review board.

Any of the following may appeal the decision of an assessment review board:

- (a) the complainant;*
- (b) an assessed person, other than the complainant, who is affected by the decision;*
- (c) the municipality, if the decision being appealed relates to property that is within the boundaries of that municipality;*
- (d) the assessor for a municipality referred to in clause (c).*

An application for leave to appeal must be filed with the Court of Queen's Bench within 30 days after the persons notified of the hearing receive the decision, and notice of the application for leave to appeal must be given to:

- (a) the assessment review board, and*
- (b) any other persons as the judge directs.*