



Composite Assessment Review Boards

REGIONAL MUNICIPALITY OF WOOD BUFFALO BOARD ORDER CARB 2015-021

IN THE MATTER OF A COMPLAINT filed with the Regional Municipality of Wood Buffalo Composite Assessment Review Board (CARB) pursuant to Part 11 of the *Municipal Government Act* being chapter M-26 of the revised statutes of Alberta 2000.

BETWEEN:

TREIT Holdings 9 Corporation – Complainant

- and -

Regional Municipality of Wood Buffalo (RMWB) – Respondent

BEFORE:

Members:

L. Wood, Presiding Officer

I. Dewan, Member

K. Haxton, Member

Staff:

J. Wall, Clerk

BACKGROUND AND DESCRIPTION OF PROPERTY UNDER COMPLAINT

[1] A hearing was convened on December 11, 2015 in the Regional Municipality of Wood Buffalo in the Province of Alberta to consider a complaint about the assessment of the following property:

Assessment Roll Number	30620010
Civic Address	200 Parent Way, Fort McMurray AB
Owner	TREIT Holdings 9 Corporation
Assessment Value	\$14,034,000
File Number	15-046

[2] The subject property is a 1.28 acre parcel of land, improved with a 12,754 square foot building, constructed in 2003. It is commonly known as the Vantage Inn & Suites. It is located in the Gregoire subdivision, near Highway 63. The land is zoned C-4, Highway Commercial District.

[3] The subject property is a limited service hotel and consists of 83 guest rooms; a fitness centre; a breakfast room; and basement lease space. The room mix consists of single queen, twin queen and suite rooms. Amenities include complimentary continental breakfast, hi-speed internet, and a fitness centre.

[4] The subject property was assessed based on the income approach to value. The only issue before the Board pertains to the appropriate capitalization rate to be applied to the subject property. The remaining variables used in the income approach to value were not challenged by the Complainant.

PROCEDURAL MATTERS

[5] The CARB derives its authority to make decision under Part 11 of the *Municipal Government Act*, R.S.A. 2000, c. M-26.

[6] The parties confirmed that they had no objection to the composition of the Board.

[7] The parties submitted that their evidence and argument pertaining to the assessed capitalization rate was similar to the previous hearing (file 15-016) and requested to carry it forward to the case at hand. The Board agreed to do so.

COMPLAINANT'S REQUESTED VALUE: \$13,037,000

ISSUES

[8] Is the capitalization rate for the subject property equitable to similar properties?

MERIT MATTERS

Position of the Complainant

[9] The Complainant submitted that the hotel market in Alberta has experienced significant fluctuations over the past several years, particularly in the period from 2008 to 2011. There was significant occupancy growth, Average Daily Rates (ADRs), new

construction and an active investment market prior to 2008. The recovery is still underway however there has been a decrease in ADRs and occupancy. The occupancy rates have not returned to those levels experienced prior to 2008 and while there is expansion in the hotel industry underway, the market has not stabilized to normal levels. The Complainant submitted graphs to support his position (Exhibit C1 pages 8 & 9).

[10] The Complainant submitted that hotels such as the subject property are a specialized type of property that have a distinct purchaser in the real estate market. A hotel property is typically purchased for its income earning potential and, in reviewing the matter at hand, the Complainant utilized the income approach to value to determine the overall value of the subject property, a method similarly employed by the Respondent, as it is the least subjective methodology.

[11] The Complainant requested a revision to the current capitalization rate from 11.0% to 11.5% based on equity. The Complainant submitted that the subject property's hotel realty should be assessed with an 11.5% capitalization rate similar to the Nomad Inn. In addition, the Complainant submitted that restaurant leased areas in the Nomad, the Radisson and the Merit have received an 11.50% capitalization rate (Exhibit C1 pages 12 & 13). The Complainant argued that the subject property is currently assessed with a split capitalization rate of 11.0% on the realty and 11.5% on the restaurant leased space. That methodology assumes that these components could be bought and sold separately from the hotel which is not possible as they are not separately titled.

[12] Moreover, the Complainant submitted that the ancillary space for the leased restaurant area in the subject property does not need to be assessed separately as the income statements account for the net operating income of the leased restaurant component. The Complainant submitted the Profit and Loss Statement for the subject property for the full calendar years of 2011 – 2013 (Exhibit C1 pages 21 & 22). He indicated that he had no issue with the assessed income applied to the subject property. The Complainant requested that a single capitalization rate of 11.5% be applied to the entire property, similar to the Nomad Inn and its leased restaurant spaces (Exhibit C1 page 24).

[13] Based on the foregoing, this would result in a change to the overall assessment for the subject property from \$14,034,000 or \$169,095/unit to \$13,037,000 or \$157,076/unit.

Position of the Respondent

[14] The Respondent submitted that accommodation properties were valued based on their income potential using three years of stabilized income derived from actual income and expense statements requested from owners through Request for Information (RFIs). By stabilizing the statements over a three year period, this will capture any fluctuations in the market during that period of time. The income approach to value best reflects the typical actions of a buyers and sellers when purchasing income properties. The direct capitalization approach is the preferred method to value the majority of improved commercial properties. It involves capitalizing the derived net income by the overall rate determined from comparable market sales (Exhibit R1 page 7).

[15] In response to the Complainant's equity argument, the Respondent submitted that properties that exhibit lower capitalization rates have generally similar attributes: high occupancy levels; lease rates are close to market; a strong ability to attract and retain tenants; the area is well maintained; and, there is a lower risk on investment. This is contrasted to properties that exhibit higher capitalization rates: the area consistently exhibits higher vacancy levels; covenants are less secure; the properties may require some capital to correct deferred maintenance; and, there is a higher risk on investment.

[16] To illustrate this further, the Respondent submitted nine equity comparables of accommodation properties in the Fort McMurray area (Exhibit R1 page 20). She indicated that the four properties that received an 11.5% capitalization rate are inferior in terms of quality, condition, and amenities to those that received 11.0%. The Respondent indicated that the subject property has increasing occupancy rates as well as increasing average room rates and revenue per available room, as illustrated in the income and expense statements, including the actual income statement ending June 30, 2014, which further supports the lower capitalization rate (Exhibit R1 page 18). It is also achieving higher occupancy levels than the Nomad Inn.

[17] The Respondent reviewed the proforma for the subject property which she based on three years of stabilized income and expenses (Exhibit R1 page 19). Applying an 11.0% capitalization rate, the total hotel real estate is valued at \$13,629,910. The Respondent valued the leased space of 1,495 square feet for the restaurant separately. Based on a \$35.00 per square foot (psf) lease rate and an 11.5% capitalization rate, the Respondent derived an ancillary value of \$405,000 which she added to the hotel realty for a total value of \$14,034,910, truncated to \$14,034,000.

[18] Still, the Respondent advised the Board that a correction is warranted for the leased space for the restaurant. She indicated that she had assessed the Sports Bar which is located in the basement of the hotel, at a restaurant rate typically applied to main floor restaurant areas. The Respondent submitted a recommendation to the Board to revise the assessed rental rate from \$35.00 psf to \$18.00 psf, which would change the overall assessment from \$14,034,000 to \$13,834,000.

FINDINGS

[19] The Board finds that there was insufficient evidence submitted by the Complainant to change the capitalization rate of 11.0% for the subject property.

[20] The Board accepts the assessor's recommendation to correct the assessed rental rate applied to the restaurant space from \$35.00 psf to \$18.00 psf.

DECISION

[21] It is the Decision of the Composite Assessment Review Board to revise the assessment for the subject property from \$14,034,000 to \$13,834,000.

REASON FOR DECISION

[22] The Respondent submitted a recommendation to the Board that the assessed rental rate applied to the restaurant space in the hotel of 1,495 square feet should be revised from \$35.00 psf to \$18.00 psf. The Respondent indicated that the Sports Bar is located in the basement of the hotel and therefore it should receive a reduced rental rate. The Board accepted the Respondent's recommendation as it would be unfair to assess the basement level space at the same rental rate as a main floor restaurant. A change to the current assessment from \$14,034,000 to \$13,834,000 is warranted, based on the Respondent's recommendation.

[23] However, the Board was not persuaded by the Complainant's position that the assessed capitalization rate of 11.0% should be revised. The Board was not convinced by the Complainant's equity argument that the Nomad Inn is similar to the subject property to warrant a change in capitalization rate. The Nomad Inn is located in the central business district which is a less desirable location than the subject property, and the Nomad Inn is an older hotel, built in the late 1970's compared to the subject property. It is reasonable to expect that these two factors could account for the 0.5% differential in the capitalization rates applied to these two properties.

[24] Nonetheless, the Board agrees with the Complainant, in part, that it is unusual to have a split capitalization rate applied to a single property. The Respondent appears to have assessed restaurant space within a hotel at a higher capitalization rate, which she indicated was to capture a stigma associated with being located in a hotel as opposed to being located in a stand-alone building. The Board would prefer to see a single capitalization rate applied; however, to increase it upwards to 11.5% would be unfair. The Complainant is requesting a higher capitalization rate based on the lesser income generated by the restaurant space to be applied to the entire property.

[25] In the Board's opinion, the Complainant is deriving a benefit in the manner in which the Respondent is currently valuing the hotel. If the Board were inclined to select one capitalization rate, it would be 11.0% that was applied to the hotel realty. Based on equity, the Board will not alter the current 11.5% capitalization rate applied to the restaurant space as it appears to be the same approach in which the assessor has valued restaurant spaces in hotels within this market area; to change the capitalization rate for the subject property's restaurant space would create inequity amongst the other restaurant spaces within hotels.

[26] In coming to its conclusion, the Board has reviewed carefully the provisions of the *Municipal Government Act* ("MGA"), the *Matters Relating to Assessment Complaints Regulation* ("MRAC") and the *Matters Relating to Assessment and Taxation Regulation* ("MRAT").

[27] It is so ordered.

DISSENTING OPINION

[28] There was no dissenting opinion.

[29] The decision of the Composite Assessment Review Boards is final and binding on all parties, subject only to appeal to the Court of Queen's Bench on a question of law or jurisdiction with respect to the decision in accordance to section 470 of the *Municipal Government Act*, R.S.A 2000, c. M-26.

Dated at the Regional Municipality of Wood Buffalo in the Province of Alberta, this
14th day of January 2016.

FOIP Act s.17(1)



For: Lana Wood, Presiding Officer

APPENDIX A

DOCUMENTS RECEIVED AND CONSIDERED BY THE CARB

Exhibit Number	Description
C1	Complainant's Brief
C1	Complainant's Brief (file 15-016)
R1	Respondent's Brief
R1	Respondent's Brief (file 15-016)

APPENDIX B

REPRESENTATIONS

Person Appearing	Capacity
S. Cook	Agent, Colliers International Realty Advisors Inc.
J. Phelan	Agent, Colliers International Realty Advisors Inc.
D. Howatt	Assessor, Regional Municipality of Wood Buffalo
M. Kandola	Assessor, Regional Municipality of Wood Buffalo