Composite Assessment Review Boards

REGIONAL MUNICIPALITY OF WOOD BUFFALO BOARD ORDER CARB 2015-022

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 8 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	30620260
Civic Address	435 Gregoire Drive, Fort McMurray, AB
Owner	TREIT Holdings 8 Corporation
Assessment Value	$20,629,000
File Number	15-016

[2] The subject property is a 2.74 acre parcel of land, improved with a 23,863 square foot building, constructed in 2002. It is commonly known as the Radisson Hotel & Suites. It is located in the Gregoire subdivision, near Highway 63 and the airport. The land is zoned C-4 - Highway Commercial District.

[3] The subject property is a full service hotel and consists of 134 guest rooms; a fitness centre; an indoor swimming pool; and the Prime Social Kitchen restaurant. The room mix consists of single and double queen and king bed rooms; executive and studio suites; and studio kings. Amenities include complimentary hi-speed internet, lobby business centre, and eight meeting rooms.

[4] The subject property was assessed based on the income approach to value. The issues before the Board pertain to the appropriate capitalization rate and the ancillary value of the restaurant. 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.

COMPLAINANT'S REQUESTED VALUE: $15,189,000

ISSUES

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

[8] Is the ancillary value of the restaurant correct?

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 experiences 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 submitted the Profit and Loss Statement for the subject property for the full calendar years of 2013 and 2012, and stabilized the income and expenses using a 70/30 weighting. In response to a question from the Board, the Complainant conceded that the 2012 income statement covered an approximate 10.5 month period since the owner purchased the property in February 2012 for $25,100,000. The Complainant did not submit the financials for 6 months of 2014 on the basis that it would have been speculative to stabilize the income and expense values for six months. The Complainant also did not submit the financials for 2011 as the hotel was in operation for only a part of that year (Exhibit C1 pages 12-14).

[12] The Complainant requested a revision to the current capitalization rate from 11.0% to 11.5% capitalization rate 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 and its restaurant leased areas (Exhibit C1 pages 15 & 16). 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 (Exhibit C1 page 16).

[13] 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. Additionally, the 11.5% capitalization rate would be equitable with the Nomad Inn and its restaurant spaces (Exhibit C1 page 16). The Complainant requested that a single capitalization rate of 11.5% be applied to the entire property.

[14] Based on the foregoing, this would result in a change to the overall assessment for the subject property from $20,629,000 or $153,948/unit to $15,189,000 or $113,350/unit.

Position of the Respondent

[15] 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).

[16] The Respondent submitted that the subject property sold on February 8, 2012 for $25,100,000 or $187,313/door as reflected in the Account Detail Report (Exhibit R1 page 17). The Respondent indicated that the sale was subject to special financing although she was not sure of the details. She requested further information about the sale from the property owner but no response was received. However, she provided a rudimentary calculation dividing the stabilized income of $2,032,642 as of July 1, 2012 into the sale price of $25,100,000 and derived an 8.10% capitalization rate (Exhibit R1 page 20). The Respondent argued this supports the current 11.0% capitalization rate applied to the hotel realty.

[17] The Respondent submitted the six month actual income statement ending on June 30, 2014 for the subject property (Exhibit R1 page 18). The Respondent indicated that the occupancy rate was increasing as well as the average room rate. 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 $19,328,026. The Respondent valued the leased space of 4,800 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 $1,301,739 which she added to the hotel realty for a total value of $20,629,525 truncated to $20,629,000.

[18] The Respondent submitted four equity comparables to support the 11.0% capitalization rate (Exhibit R1 page 24). Three of the equity comparables have an 11.0% capitalization rate similar to the subject property; the Nomad Hotel has an 11.5%

capitalization rate. The values per door ranged between $125,080/door to $186,369/door. The subject property falls within that range at $153,948/door. The Respondent indicated that the best comparable on that list was the Sawridge Inn valued at $157,735/door. The Respondent argued that the Complainant's request of $113,000/door is inequitable.

[19] The Respondent requested that the Board confirm the current assessment for the subject property.

FINDINGS

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

[21] The Board finds that there was insufficient evidence submitted by the Complainant to change the ancillary value of the restaurant.

DECISION

[22] It is the Decision of the Composite Assessment Review Board to confirm the assessment for the subject property at $20,629,000.

REASON FOR DECISION

[23] 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] With respect to the issue of the restaurant lease, the Board notes that there was no evidence provided to confirm that the lease revenues were included in the hotel income proforma presented by the Complainant. The Board preferred the Respondent's approach to value the restaurant's leased space as ancillary space, separate from the hotel's income stream, which is an accepted assessment methodology.

[27] The Board notes that the sale of the subject property is a valid sale and could serve as a benchmark in the case at hand. It is a recent sale that occurred twenty six months prior to the valuation date and it appears to be an arm's length transaction between REITs. The Board notes the parties' concerns over the special financing as no details were presented and the parties cautioned the Board that adjustments to the sale would be required for chattels, goodwill, business value etc. Even so, applying the undisputed 16.5% allowances for furniture, fixtures and equipment, and intangibles to the sale price provides a market indication of $20,958,500 for the hotel real estate component; a value supportive of the current assessment and well exceeds the Complainant's request. Moreover, there is no evidence to support the Complainant's position that the hotel market in Fort McMurray has decreased significantly in a two year period. On the contrary, the Respondent's evidence indicates that the subject's revenue per available room has increased by 20%, from $114.99 to $138.01 in the 12 month period preceding the valuation date.

[28] No change to the current assessment is warranted.

[29] 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").

[30] It is so ordered.

DISENTING OPINION

[31] There was no dissenting opinion.

[32] 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) [redacted]

For: Lana Wood, Presiding Officer

APPENDIX A

DOCUMENTS RECEIVED AND CONSIDERED BY THE CARB

Exhibit Number	Description
C1	Complainant's Brief
R1	Respondent's Brief

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