

# Central Alberta

Regional Assessment Review Board

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Decision: **CARB 0262 661/2015**  
Complaint ID 661  
Roll No. 931306

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COMPOSITE ASSESSMENT REVIEW BOARD DECISION  
HEARING DATE: August 11, 2015

PRESIDING OFFICER: C. Duxbury  
BOARD MEMBER: A. Gamble  
BOARD MEMBER: D. Moore

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BETWEEN:

TREIT HOLDINGS 10 CORPORATION

Complainant

-and-

THE CITY OF RED DEER

Respondent

This is a complaint to the Central Alberta Regional Composite Assessment Review Board (the "Board") in respect of a property assessment prepared by the Assessor of the City of Red Deer as follows:

ROLL NUMBER: 931306  
MUNICIPAL ADDRESS: 3310 - 50 Avenue  
ASSESSMENT AMOUNT: \$ 43,816,100

The Board heard the complaint on the 11<sup>th</sup> day of August 2015, in the City of Red Deer, in the Province of Alberta.

Appeared on behalf of the Complainant (Agents):

James Phelan, Senior Associate, Colliers International Property Tax Services  
Stephen Cook, Managing Director, Colliers International Property Tax Services

Appeared on behalf of the Respondent:

Rob Kotchon, Non-Residential Coordinator and Analyst, City of Red Deer

**DECISION:** The assessed value of the subject property is varied to \$35,034,101.00.

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## **JURISDICTION**

- [1] The Board has been established in accordance with section 456 of the *Municipal Government Act*, R.S.A. 2000, c. M-26 (the "MGA"), and City of Red Deer Bylaw No. 3474/2011, *Regional Assessment Review Board Bylaw*.
- [2] Neither party raised an objection to any Board member hearing the complaint.
- [3] No procedural or jurisdictional matters were raised by either party.

## **PROPERTY DESCRIPTION AND BACKGROUND**

- [4] The subject property is a full service Sheraton Hotel located in Red Deer. The property consists of 242 accommodation units with main floor restaurants, bars, convention and meeting facilities, banquet amenities, and a freestanding liquor store. Although originally constructed in 1957, with renovations and additions the subject property has an effective year built of 1977.
- [5] The 2015 assessment of the subject property states that it is a non-residential property including land and improvements. The property type is listed as "Hotel Retail" and "Hotel/Motel". The Respondent determined the assessed value of the subject property using the income approach to value. The current assessed value is \$43,816,100.

## **PRELIMINARY MATTERS**

- [6] The only preliminary matter raised was a request by the Complainant to revise its requested assessed value from the \$20,500,000 that appeared on the Complaint Form to the \$30,391,500 requested in its disclosure package, Exhibit C1. The Respondent raised no objection to the Complainant's request. The Board noted the revision on the record, and proceeded to hear the merits of the complaint.

## **ISSUES**

- [7] At issue is whether the assessed value of the subject property is too high. During the hearing, the parties' submissions focused on the following four matters:
1. Which years of revenue and expenses should be used to determine the stabilized net operating income for the subject property?
  2. Should an additional 1.5% be deducted from the net operating income to account for business enterprise value and intangibles?
  3. Should the assessed value of the parking lot separated by 51<sup>st</sup> avenue be deducted from the assessment of the subject property?
  4. Is the 8.5% capitalization rate applied by the Respondent too low?

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[8] The Board confirmed with both the Complainant and the Respondent that these were the only matters in dispute between the parties for the purposes of this hearing.

**1. Which years of revenue and expenses should be used to determine the stabilized net operating income for the subject property?**

**Position of the Complainant**

- [9] On page 11 of Exhibit C1, the Complainant produced a document entitled "Hotel Summary" detailing the assessment calculation provided by the Respondent in response to the Complainant's MGA s. 299 request. This document indicates that the Respondent employed the income approach to valuing the subject property, using the revenue and expenses of the subject property for the years 2012, 2013, and 2014 to come to a stabilized net operating income.
- [10] The Complainant takes no issue with the Respondent's use of the income approach to valuing the subject property, or with the Respondent's use of three years of the subject property's revenue and expenses in its determination of a stabilized net operating income. The Complainant advised that it is the Respondent's practice to use three years of revenue and expense information to determine a stabilized net operating income for all hotel properties in Red Deer. The Complainant further argued that it would be unfair and inequitable to use anything less than three years of revenue and expense information to determine the assessed value of the subject property. The Respondent's error, the Complainant argued, was in using the revenue and expenses from 2014 in its calculations.
- [11] The Complainant noted that at the time the Respondent used the revenue and expenses for 2014 in its calculations, it only had the subject property's revenue and expense information from the first six months of 2014. In order to come to a full year of revenue and expenses for 2014, the Respondent simply multiplied the subject property's actual revenue and expenses from the first six months of 2014 by two. The Complainant argued that this extrapolation was improper and unnecessary.
- [12] In the Complainant's opinion, by multiplying the subject property's revenue and expense information from the first six months of 2014 by two, the Respondent has estimated the revenue and expenses for the last six months of 2014. Given that the actual values for 2012 and 2013 were used, the Complainant argued that it is improper to use estimated values for 2014. Furthermore, the Complainant noted, given the valuation date mandated by the MGA of July 1, 2014, any values for the last six months of 2014 are post facto.
- [13] The Complainant argued that the revenue and expense information from the first six months of 2014 should not be used at all, because only full calendar years should be considered in determining a stabilized net operating income. The Complainant dismissed the two previous CARB decisions the Respondent argued support the position that available revenue and expense information from the first six months of the assessment year should be used to determine the assessed value of a property as at July 1. The Complainant argued that these decisions out of Calgary should not be relied upon because the City of Calgary uses a different methodology in determining stabilized net operating income that includes a weighted average of previous years revenue and expense information. In coming to its requested assessed value of \$30,391,500, detailed on pages 26 to 28 of Exhibit C1, the Complainant has used the actual revenue and

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expense information from the subject property for the full calendar years 2011, 2012, and 2013.

### **Position of the Respondent**

- [14] The Respondent confirmed that it uses the income approach to valuing all hotel properties in Red Deer, using the stabilized revenue and expenses generated by each hotel.
- [15] The Respondent acknowledged that it erred in including the estimated revenue and expenses for the last six months of 2014 in its determination of the stabilized net operating income for the subject property. The Respondent recalculated the stabilized net operating income using only the first six months of known actual revenue and expenses for the subject property in 2014 and, keeping all other values the same, proposed a revised assessed value for the subject property of \$43,597,500.
- [16] The Respondent also acknowledged that it is its practice to determine the stabilized net operating income for hotels in Red Deer using three years of revenue and expenses where it is available. However, the Respondent defended its use of only 2.5 years of actual revenue and expenses for the subject property, being 2012, 2013, and the first six months of 2014.
- [17] The Respondent explained that the subject property was purchased in 2008 as the Capri Centre, and eventually rebranded as a Sheraton at the end of 2011. The Respondent stated that the Sheraton brand is known worldwide as a premium quality standard. The Respondent advised that the Capri Centre had to undergo extensive renovations to be brought up to the Sheraton standard before it could be rebranded. The hotel converted to the Sheraton brand at the end of 2011 by spending \$12,000,000 in renovation work, upgrades, and the addition of 23 rooms. The Respondent produced information from the subject property's hotel website and from the Complainant's annual reports that details the rebranding efforts.
- [18] The Respondent argued that using the actual revenue and expenses for 2011, when the subject property still operated as the Capri Centre, to determine the assessed value of the subject property operating as a Sheraton would be unfair and inequitable. The Respondent noted that the construction and renovation work completed in 2011 means that the hotel was not operating at 100% capacity. In support of this contention, the Respondent pointed to a statement to that effect located in the 2011 Temple Reit Annual Report found on page C12 of Exhibit R2. The Respondent argued that the fact that the subject property was not operating at 100% capacity, combined with the reduced name cache of the Capri Centre over a Sheraton hotel, translated into a lower income in 2011 than is typical for a Sheraton. In support of this contention the Respondent pointed to the 36% increase in room revenue from 2011 to 2012, the details of which can be found on page 12 of Exhibit R1.
- [19] The Respondent argued that the Complainant's failure to use any revenue and expense information from 2014 in coming to its requested assessed value is illogical and renders its assessed value meaningless. In the Respondent's view, given the legislated valuation date of July 1, 2014, if there is revenue and expense information for January 1 to June 30, 2014, that information should be used. The Respondent submitted two previous CARB decisions it argues supports its position that available revenue and expense information

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from the first six months of the assessment year should be used to determine the assessed value of a property as at July 1: CARB 1374/2010-P and CARB 1377/2010-P.

### **Board's findings and reasons for decision**

- [20] The use by the Respondent of the income approach to valuing the subject property, and its use of the actual revenue and expense information for the subject property were not in dispute. The Board was persuaded that the Respondent was correct in using the subject property's actual revenue and expense information for 2012, 2013, and the first half of 2014 in its determination of the stabilized net operating income. However, the Board finds that the Respondent erred in including the estimated revenue and expenses for the last six months of 2014 in its determination of the stabilized net operating income when all other values used were actuals, and notes that this information is post facto in any event. The Board appreciates the Respondent's acknowledgement of its error in this regard.
- [21] Section 6 of the *Matters Relating to Assessment and Taxation Regulation* AR 220/2004 ("MRAT") provides that the valuation standard for the subject property is market value. Section 3 of MRAT states:
- 3 Any assessment prepared in accordance with the Act must be an estimate of the value of a property on July 1 of the assessment year.
- Accordingly, the assessed value of the subject property must be an estimate of the market value of the property on July 1, 2014.
- [22] The Board finds that to ignore the subject property's actual revenue and expense information for the first six months of 2014 as proposed by the Complainant would result in an assessed value that does not reflect the market value of the subject property on July 1, 2014. The Complainant provided no persuasive support for its contention that only full calendar years should be used in determining the stabilized net operating income.
- [23] The Board is persuaded by the Respondent's argument that the subject property's revenue and expense information for 2011 should not be used in the determination of the stabilized net operating income. In 2011 the subject property was still operating as the Capri Centre, was undergoing extensive renovations, and was not operating at 100% capacity. The Board is persuaded that these facts resulted in a lower income in 2011, which is borne out by the 36% jump in room revenue from 2011 to 2012.
- [24] For these reasons the Board finds that the stabilized net operating income for the subject property should be determined based on the actual revenue and expenses for the subject property for the 2.5 years immediately prior to July 1, 2014. That is, the stabilized net operating income for the subject property should be determined based on the actual revenue and expenses for the subject property for 2012, 2013, and the first six months of 2014.

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**2. Should an additional 1.5% be deducted from the net operating income to account for business enterprise value and intangibles?**

**Position of the Complainant**

- [25] The Complainant noted that the Respondent accounted for the furniture, fixtures and equipment ("FF&E") within the subject property by deducting 15% from the net operating income, a deduction the Complainant agrees is appropriate because FF&E is not part of the fee simple real estate to be valued. In the Complainant's view; however, a further 1.5% should be deducted from the net operating income to account for business enterprise value and intangibles because it too is not part of the fee simple real estate of the property.
- [26] The only argument made by the Complainant during the hearing to support its contention that there should be a further 1.5% deduction from the net operating income to account for business enterprise value and intangibles is that other municipalities account for it. In support of this contention the Complainant produced a chart on page 18 of Exhibit C1 detailing four hotels in the Regional Municipality of Wood Buffalo and one hotel in the City of Edmonton where the Complainant claims that this further 1.5% deduction was made. The Complainant advised that all five of these hotels are name brand hotels like the subject property. In summary at the end of the hearing, the Complainant stated that the 1.5% deduction requested is different from the 3% deduction the Respondent made for "reserve".

**Position of the Respondent**

- [27] The Respondent explained that it analyzes the actual expenses associated with hotel operations over the same multiyear period it analyzes the actual revenue. By analyzing the expenses over the same period, the stabilized actual expenses that are established are deducted from the stabilized actual revenue. In addition to the normalized expenses the Respondent deducts, and over and above the 15% deduction for FF&E, the Respondent allows for a further 3% deduction for any intangible or capital expenditures made by the hotel. This appears on the Hotel Summary detailing the assessment calculation as "reserve".
- [28] In short, the Respondent argued, it has given the Complainant twice the deduction being requested for what amounts to the same thing.

**Board's findings and reasons for decision**

- [29] The Board finds that an additional 1.5% should not be deducted from the net operating income to account for business enterprise value and intangibles. The Board notes that the 15% deduction for FF&E was not in dispute.
- [30] The only argument made by the Complainant during the hearing to support its contention that there should be a further 1.5% deduction from the net operating income to account for business enterprise value and intangibles is that two other municipalities have done it in the case of five different name brand hotels. The Board does not consider this evidence alone sufficiently persuasive to prompt it to permit an additional 1.5% deduction.

[31] Furthermore, following the presentation of the Respondent's case, the Board specifically asked the Respondent to confirm if it is its position that the 3% deduction made for "reserve" is essentially for the same things that the Complainant is requesting a further 1.5% deduction for. The Respondent confirmed that it is. The Board notes that despite being given an opportunity to do so, the Complainant did not question the Respondent on this statement, and only mentioned in passing during its summary at the end of the hearing that the 1.5% deduction requested is different from the 3% deduction the Respondent made for "reserve". In these circumstances the Board finds that the deduction for business enterprise value and intangibles has been captured by the 3% reserve deduction, and that no further deduction should be made.

**3. Should the assessed value of the parking lot separated by 51<sup>st</sup> avenue be deducted from the assessment of the subject property?**

**Position of the Complainant**

- [32] The Complainant takes the position that the parking lot separated from the rest of the subject property by 51<sup>st</sup> avenue (the "parking lot") is needed to comply with the parking requirements set out in City of Red Deer Land Use Bylaw 3357/2006 (the "Bylaw"), and is a functional part of the property. As such, the Complainant argued, the \$2,023,800 assessed value of the parking lot should be deducted from the assessed value of the subject property.
- [33] The Complainant referred the Board to the Summary Report for the 2014 Assessment reproduced on page 10 of Exhibit C1. The Complainant noted that under the heading "Property Type", "Hotel Retail" and "Hotel/Motel" appear. This indicates that the Respondent acknowledges that the subject property is made up of two different property types. The Complainant referred to photographs of the subject property and several pages of both its and the Respondent's disclosure packages that show that in addition to guest rooms, the subject property contains significant banquet, restaurant, bar, and retail space. One of the pages referred to by the Complainant was page 4 of the Respondent's materials, Exhibit R1, indicating that the meeting and event facilities located within the subject property can accommodate up to 2500 guests. It follows, the Complainant argued, that parking is required for more than just accommodation of hotel guests.
- [34] The Complainant produced a page from the Bylaw at page 70 of Exhibit C1, and that same page plus what appears to be the next page from the Bylaw at pages 34 and 35 of Exhibit C2. These pages detail the number of parking spaces required for each of the uses listed. The Complainant argued that these requirements should be interpreted as being cumulative. That is, the number of parking spaces required for a hotel should be added to the number of parking spaces required for a drinking establishment, and so on for each type of amenity located within the subject property. The Complainant believes that the Respondent failed to consider the parking spaces required for these additional amenities when it determined that the additional parking lot was not required for the subject property.
- [35] The Complainant referred the Board to previous years' assessments for the subject property and noted that the assessed value of the parking lot was always deducted. Given that the parking requirements have not changed, and that nothing has changed within the subject property, the Complainant is at a loss to understand why the Respondent has

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suddenly refused to deduct the assessed value of the parking lot for the 2014 assessment.

### **Position of the Respondent**

- [36] The Respondent acknowledged that it is its practice to permit a property owner to satisfy a property's parking requirements with spaces located on a nearby lot where necessary. The Respondent further acknowledged that in previous years the assessed value of the parking lot at issue was deducted from the assessed value of the subject property. However, Mr. Kotchon advised that he had never gone out and counted the parking spaces before.
- [37] Mr. Kotchon advised that when he was preparing the 2014 assessment for the subject property, he went out and counted the number of parking spaces available on the lot directly adjacent to the subject property. He counted in excess of 300 spaces. The Bylaw requires one parking space per guest room. With only 242 guest rooms contained within the subject property, and an excess of 300 parking spaces, there is more than adequate parking on the lot adjacent to the hotel. For this reason, the Respondent did not deduct the assessed value of the additional parking lot from the assessed value of the subject property. The Respondent noted that the excerpt referred to in its materials indicating that the meeting and event facilities located within the subject property can accommodate up to 2500 guests, is an excerpt taken from hotel's website and not a number determined by the Respondent.
- [38] The Respondent argued that there is no evidence that the parking requirements listed in the Bylaw are cumulative, and maintained that it should be assumed that the City of Red Deer would have considered that hotels have amenities other than guest rooms when it set the parking requirement at one parking space per guest room.
- [39] The Respondent noted that the Complainant did not show any calculations in its evidence to indicate how many more parking spaces it suggests would be required for the additional amenities. The Respondent also pointed to a 2013 article from the *Red Deer Advocate* reproduced at page 45 of Exhibit R1, wherein the CEO of the subject property owner is quoted as saying that "...there is the potential for about 2.24 acres of land that is now used for parking to be redeveloped with commercial retail units." The Respondent argued that this statement supports its position that the parking lot is not, in fact, required for parking.

### **Board's findings and reasons for decision**

- [40] The Board finds that the \$2,023,800 assessed value of the parking lot separated by 51st avenue should be deducted from the assessment of the subject property.
- [41] The Board has reviewed the two page excerpt produced from the Bylaw. Before listing the specific parking requirements in table form, the Bylaw states, in part: "...an owner or occupant of land must provide for not less than the number of on-site parking spaces for the applicable land use(s) as specified [sic] Table 3.1 below...". The table lists a variety of uses and the parking spaces required for each use. Hotels are grouped with motels and hostels as requiring one parking space per room.



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- [42] The Board does not accept the Respondent's argument that it should be assumed that the City of Red Deer would have considered that hotels have amenities other than guest rooms when it set the parking requirement at one parking space per guest room. The Board does not consider this a reasonable interpretation of the Bylaw given that the Bylaw has grouped hotels with motels and hostels. Based on the limited excerpt from the Bylaw provided, the Board finds it unreasonable to assume that the City of Red Deer considered a full service hotel such as the subject property to have the same parking needs as a motel or hostel.
- [43] Based on the limited excerpt from the Bylaw provided, the Board finds that the more reasonable interpretation of the parking requirements is that they are cumulative. That is, the number of parking spaces required for a hotel, motel or hostel, should be added to the number of parking spaces required for a drinking establishment, and so on for each amenity located within the property.
- [44] Support for the Board's interpretation that the requirements are cumulative comes from the wording of the statement from the Bylaw reproduced above. The Board notes that "land use" is made plural, suggesting that an owner or occupant of land may be making more than one use of the land, and that parking is required for each use. The fact that the Assessment Summary Report for the subject property issued by the Respondent lists the property type as "Hotel Retail" and "Hotel/Motel" suggests that the City of Red Deer recognizes that more than one use is being made of the subject property.
- [45] The Board acknowledges the Respondent's point that the Complainant did not produce calculations that detail the specific number of parking spaces the subject property allegedly requires over and above the 242 required for the hotel. The Board notes; however, that there is enough information to be found in the evidence submitted to allow the Board to perform its own simple calculations.
- [46] On page 4 of Exhibit R1, the Respondent has provided the square footage of the amenities located within the subject property. When added together, the amenities total 80,500 square feet. Of this total, 7,548 square feet is retail space. The Bylaw requires 5.1 parking spaces per 93.0 square metres. Accordingly, the retail space alone requires an additional 39 parking spaces. Added to the 242 spaces required for the hotel, 281 of the 300+ spaces the Respondent advised is in the lot adjacent to the subject property are required at a minimum.
- [47] The Board cannot calculate the parking requirements for the remaining 73,000 square feet because the Bylaw describes the parking requirements for the other types of amenities comprising it as being per seat. The Board has not been provided with the seating capacity of these amenities. However, given that these amenities occupy more than 90% of the total additional amenity area, the Board finds it reasonable to assume that the remaining 73,000 square feet of amenity space will have parking requirements well in excess of the 19+ spaces remaining on the lot adjacent to the subject property.
- [48] The Respondent acknowledged that it is its practice to permit a property owner to satisfy a property's parking requirements with spaces located on a nearby lot if necessary. Based on the Board's interpretation of the Bylaw's parking requirements as cumulative, and the extent and type of additional amenity space located within the subject property, the Board finds that the Bylaw's parking requirements are not met by the number of spaces located

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immediately adjacent to the subject property and that substantial additional parking is required. For these reasons, the Board finds that the \$2,023,800 assessed value of the parking lot separated by 51st avenue should be deducted from the assessment of the subject property.

#### **4. Is the 8.5% capitalization rate applied by the Respondent too low?**

##### **Position of the Complainant**

- [49] The Complainant takes the position that the 8.5% capitalization rate ("cap rate") applied by the Respondent is too low, and requests that that a cap rate of 11% be applied.
- [50] The Complainant noted that the current assessed value of the subject property at what amounts to \$188,052 per unit is a 56% increase over the previous year's assessment. The Complainant argued that there is no evidence in the market place to suggest that an increase of that magnitude is warranted.
- [51] The Complainant advised that the hotel market in Alberta experienced a significant decline from 2008 to 2011. Although recovery is underway, 2014 occupancy and average daily room rates are still well below what they were in 2007. The Complainant noted that its proposed assessed value of what amounts to \$125,585 per unit is still an increase over last years' assessment.
- [52] On page 20 of Exhibit C1, the Complainant provided a copy of the cap rate analysis the Respondent provided in response to the Complainant's s. 299 MGA request for all relevant assessment details including sales used in determining the 8.5% cap rate. The Complainant took that analysis and created its own chart, found on pages 21 to 22 of Exhibit C1. The Complainant's chart contains all of the same sales information contained in the Respondent's cap rate analysis, but adds the addresses of the sales and a description of the asset type.
- [53] The Complainant noted that not one of the sales used by the Respondent in its cap rate analysis is a hotel. On the contrary, the majority of the properties are non-residential condominiums, with some warehouses, retail and office properties. The Complainant quoted s. 2 of MRAT, which requires that an assessment of property based on market value reflect typical market conditions for properties similar to that property, and argued that the Respondent's condominium, retail and office sales are in no way similar to the subject hotel property.
- [54] The Complainant also questioned why several sales used by the Respondent, which occurred within a very short time period, within the same building, and with identical footprints, have such differing cap rates. The Complainant argued that this raises questions regarding the validity of the cap rates determined for these sales by the Respondent. The Complainant's agents acknowledged during questioning that they had not gone out and inspected any of these properties.
- [55] In support of its requested 11% cap rate, the Complainant provided a list of 13 hotel sales that took place in Alberta between July 2012 and January 2015. The details of these sales are summarized on page 24 of Exhibit C1. The Complainant explained that none of these sales are from the City of Red Deer because no hotel sales have taken place in Red Deer during the last several years. In the Complainant's opinion, the closest and best

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comparable is the sale of the Comfort Inn & Suites in Sylvan Lake near Red Deer, which produced a 10.87% cap rate.

- [56] On page 25 of Exhibit C1, the Complainant produced a chart that shows that the average and median cap rates of all of the sales relied upon by the Complainant, of just those sales of full service hotels, and of just those sales that occurred in small communities, all support an 11% cap rate being applied to the subject property. Even when the post facto sales are removed from the analysis, the Complainant noted, the numbers support an 11% cap rate. The Complainant dismissed the Respondent's claim that the cap rate ranges evidenced in Edmonton and Calgary would be the same in Red Deer, given the huge difference in populations between the cities.
- [57] Although the Complainant is of the view that the income approach is the proper approach to valuing hotel properties, the Complainant argued that, in theory, the other approaches to value should produce a similar assessed value. If the assessed value determined using another approach is significantly different, it suggests that the assessed value determined using the income approach may be incorrect.
- [58] The Complainant analyzed the same sales it used in its cap rate analysis and argued that the direct comparison approach to value supports its view that the subject property has been grossly over assessed by the Respondent. On page 29 of Exhibit C1, the Complainant provided a chart that details the average and median sale price per suite of all the sales the Complainant relies upon, of just those sales of full service hotels, and of just those sales that occurred in small communities. In every instance, the current assessed value of the subject property at what amounts to \$188,052 per unit appears over assessed. The Complainant pointed out which sales it placed the greatest reliance on and explained the adjustments it considered, the details of which are found on page 31 of Exhibit C1, to come to a more reasonable sale price per unit for the subject property of \$125,000. The Complainant's proposed assessed value of \$30,391,500 produces a sale price per unit of \$125,585.
- [59] Another "acid test" the Complainant argued supports its view that the subject property is over assessed is to consider the revenue per available room ("REVPAR"), which the Complainant stated is the most commonly used metric for a hotel's operation. The Complainant observed that the REVPAR for the subject property increased 12.3% from 2013 to 2014. Compare this increase to the 56% increase in the assessed value the Respondent has determined, and it is clear, the Complainant argued, that the assessed value of the subject property is too high. The Complainant noted that its proposed assessed value of \$30,391,500 is an 8.18% increase over last years' assessment, which is much more in line with the 12.3% increase in the REVPAR.
- [60] The Complainant disputed the Respondent's reliance on the book and appraised values of the subject property contained in the annual reports produced by the Respondent in Exhibit R2. The Complainant argued that the determination of these values involves a different methodology than what is required by the MGA and its regulations, and is for a completely different purpose, facts the Complainant was able to get the Respondent to concede during questioning. The Complainant argued than no regard should be had to an appraisal referred to in these reports that has not been submitted into evidence for scrutiny.

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[61] In rebuttal to the Respondent's contention that the subject property is the number one hotel property in the City of Red Deer, the Complainant provided the results of searches it performed on Expedia.ca, Tripadvisor.ca, travelocity.com, trivago.com, and Kayak.com, in Exhibit C2. The Complainant argued that higher guest ratings on these websites attract more guests, which drives up revenue, which affects the property's value. Not one of these websites ranks the subject property as the number one hotel in Red Deer. The Complainant acknowledged during questioning that all of the information in this regard contained in Exhibit C2 was compiled post facto, in August 2015.

### **Position of the Respondent**

- [62] The Respondent advised that it has grouped all hotel properties in Red Deer into five different classes, and considers the subject property to be the number one hotel in Red Deer. This consideration is based, in part, on the fact that no other hotel in Red Deer generates as much gross or net income as the subject. The cap rates assigned to each class are detailed on page 17 of Exhibit R1, and range from 8.5 to 12%. The subject property was assigned a cap rate of 8.5%.
- [63] The Respondent reviewed the Request for Information submitted for the subject property, which is found on page 7 of Exhibit R1. This document, completed on behalf of the owner of the subject property, indicates that the owner considers the interior finish of the property to be excellent. This document also shows that the average daily room rates have increased, as has the average occupancy. The Respondent views this document as evidence that the subject property is doing better year over year.
- [64] The Respondent advised that ideally, it would analyze recent sales of similar hotels in the same municipality to reflect the current market value. Unfortunately, there have not been any sales of hotels in Red Deer in recent years. The Respondent acknowledged that it is not prevented from looking at hotel sales outside of Red Deer, and would do so if the sales were sufficiently similar to the subject property to permit a proper comparison.
- [65] The Respondent believes that although the sale of the subject property to the current owner occurred in 2008, it can still provide very useful information. The property sold for a time adjusted sale price of \$41,464,000, resulting in a time adjusted cap rate of 8.39%, which supports the Respondent's use of its market cap rate of 8.5%. However, this time adjusted cap rate does not consider the significant changes that have occurred at the hotel since its sale to further increase its value. The fact that the total income earned by this hotel has been increasing each year, and that room revenue jumped 36% from 2011 to 2012 after the Sheraton standard was achieved, is evidence that the value of this hotel is increasing over time.
- [66] Because there have been no local sales of hotels, and because the Respondent does not view any of the hotel sales that have occurred elsewhere in the province to be of comparable properties, the Respondent determined its cap rate by analysing all of the non-residential property sales in Red Deer from July 1, 2013 to July 1, 2014. The Respondent argued that these transactions reflect how investors feel about the local market, and provide a range of cap rates from 5.1 to 9.3%. The Respondent believes its cap rate analysis is superior to the Complaint's because the Respondent looked at the local market.

- [67] In response to the concerns raised by the Complainant regarding the sales used by the Respondent which occurred within a very short time period, within the same building, and with identical footprints, but have different cap rates, the Respondent advised that the footprints were of the main floor only. The Respondent explained that those condominiums could have different mezzanine space and degrees of finish that would explain the differences indicated.
- [68] The Respondent provided several market reports which it argued support the cap rate the Respondent applied to the subject property. In the Respondent's opinion, the relevant cap rate range for Red Deer would be the ranges reported for full service hotels in Calgary and Edmonton, which are 7.0 to 8.5% and 7.5 to 9.00% respectively.
- [69] The Respondent disputed all of the hotel sales used by the Complainant in its cap rate analysis and its direct comparison approach. The Respondent argued that four of the sales are post facto, and eight have inferior amenities and are in remote locations. The Respondent noted that the Complainant failed to make any adjustments to the sale prices of the hotels to properly compare them to the subject property. The Respondent prepared an analysis chart of these sales to illustrate how they may actually support a cap rate of 8.5% once the proper adjustments are made. The chart is found on pages 21 to 22 of Exhibit R1. The Respondent observed that that none of the sale prices come close to the original purchase price of the subject property, which has seen an additional \$12,000,000 invested in it since it was purchased. The Respondent acknowledged during questioning that the adjustments applied were purely subjective.
- [70] The Respondent highlighted a number of excerpts from the annual reports produced in Exhibit R2 that it argued support its claims regarding the superiority and increasing value of the subject property. Some of these excerpts are reproduced on pages 40 to 43 of Exhibit R1. The Respondent emphasized that the current book value of the subject property is \$51,749,000, or \$214,726 per room. It is appraised at \$69,800,000 as at December 31, 2013, or \$289,627 per room. Mr. Kotchon acknowledged during questioning that he had no idea how these values were determined by the authors of the report. Mr. Kotchon also acknowledged that the determination of these values involves a different methodology than what is required by the MGA and its regulations, and is for a completely different purpose.

### **Board's findings and reasons for decision**

- [71] The Board was persuaded that that the 8.5% cap rate applied by the Respondent is too low.
- [72] The Board notes that two previous decisions regarding this property were brought to its attention by the parties during this hearing: CARB 0262 550/2013 and CARB 0262 609/2014. While this Board notes that it is not bound by its previous decisions, it recognizes the importance of consistency where circumstances permit. The Board notes that in CARB 0262 550/2013, the 9.5% cap rate applied by the Respondent was not in dispute. Accordingly, CARB 0262 550/2013 was not of assistance to this panel of the Board. In CARB 0262 609/2014 the 8.0% cap rate applied by the Respondent was in dispute, and the Board confirmed it. The Board notes; however, that upon reviewing CARB 0262 609/2014, it is apparent that where evidence brought forward in this hearing appears consistent with evidence that was brought forward in that hearing, the arguments made

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about that evidence and the questioning done regarding it do not. It is also apparent that some of the evidence submitted in the two hearings was different. The Board notes that this panel of the Board must make its decision based on the evidence presented, the questioning done, and the arguments made during this hearing.

- [73] The Board acknowledges the challenge of the Respondent to determine an appropriate cap rate for the subject property given the lack of hotel sales within the City of Red Deer. The Board also acknowledges that the cap rate analysis provided by each of the parties have both strengths and weaknesses. The Respondent used sales from within the City of Red Deer, but the sales were of properties very different from the subject. Furthermore, the Respondent gave the Board the impression that there was almost a refusal to find any useful information in the hotel sales that occurred in other jurisdictions. The Complainant used hotel sales, but the sales were from other jurisdictions. Furthermore, the Complainant did not appear to make any real attempt at adjusting those sales for size, location, or amenities, in its cap rate analysis.
- [74] The Board is in the position of having two cap rate analyses, neither of which is ideal. The Board was persuaded that to determine a cap rate for the subject property based almost exclusively on the sale of non-residential condominiums, warehouses, retail, and office properties, and seemingly refusing to give any weight to the hotel sales that occurred in other jurisdictions, appears unreasonable. The Respondent acknowledged that it is not prevented from looking at hotel sales outside of Red Deer, and would do so if the sales were sufficiently similar to the subject property to permit a proper comparison. The Respondent argued that the hotels sold in other jurisdictions are too dissimilar to be compared to the subject hotel, but that the non-residential condominiums, warehouses, retail and office properties sold within Red Deer are sufficiently similar. The Board finds this argument to be inconsistent.
- [75] The Board disagrees with the Respondent's claim that the hotel cap rate ranges evidenced in Edmonton and Calgary would be the same in Red Deer. Given the huge difference in population between Red Deer and Edmonton and Red Deer and Calgary, the Board would expect the cap rate range for hotels to be higher in Red Deer.
- [76] The Board finds the book and appraisal values of the subject property detailed in the annual reports unhelpful given the Respondent's admissions that the determination of these values involves a different methodology than what is required by the MGA and its regulations, and is for a completely different purpose. The Board agrees with the Complainant that no weight should be given to an appraisal referred to in these reports that has not been submitted into evidence for scrutiny.
- [77] The Board preferred the evidence of the Complainant on the issue of the appropriate cap rate, but disagreed with the approach of looking no further than the simple mathematical calculation of the average and median values. The Board considered the following sales to be better comparables to the subject property than the non-residential sales relied on by the Respondent.
1. Travelodge West in Edmonton. It is a full service hotel with concrete block construction like the subject, with 220 units. However, given its newer construction and superior location, the Board finds that the subject property would have a higher cap rate than the Travelodge's 9.64%

2. Comfort Inn & Suites in Sylvan Lake. This is the hotel sale in closest proximity to the subject property and was sold very close to the valuation date. However, given its much smaller size and the fact that it is not fully serviced, the Board finds that the subject property would have a lower cap rate than the Comfort Inn's 10.87%
3. Sawridge in Slave Lake. It is a full service hotel like the subject property, with 173 units. It is also similar in age to the subject property. However, given its wood construction and inferior location, the Board finds that the subject property would have a lower cap rate than the Sawridge's 12.13%
4. Mainstay Suites in Sherwood Park. This hotel is one of the larger comparables, with 119 rooms. It is inferior in its wood construction and limited services, but superior in its location with its proximity to Edmonton. The Board finds that the subject property would have a higher cap rate than the Mainstay's 9.7%.


[78] Based on these four comparables, and for the reasons cited, the Board arrived at a cap rate of 10%.

#### **DECISION SUMMARY**

[79] The Board recalculated the stabilized net operating income of the subject property using the actual revenue and expense information for 2012, 2013, and the first half of 2014. The Board came to a stabilized net operating income value of \$4,359,753. Using a capitalization rate of 10%, and deducting 15% for FF&E and the \$2,023,800 assessed value of the parking lot, the Board calculates the assessed value of the subject property to be \$35,034,101.00

[80] The Board varies the assessment of the subject property to \$35,034,101.00.

Dated at the Central Alberta Regional Assessment Review Board, in the city of Red Deer, in the Province of Alberta this 3<sup>rd</sup> day of September, 2015 and signed by the Presiding Officer on behalf of all of the panel members who agree that the content of this document adequately reflects the hearing, deliberations, and decision of the Board.



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Cathryn Duxbury, Presiding Officer

**This decision can be appealed to the Court of Queen's Bench on a question of law or jurisdiction. If you wish to appeal this decision you must follow the procedure found in section 470 of the *Municipal Government Act* which requires an application for leave to appeal to be filed and served within 30 days of being notified of the decision. Additional information may also be found at [www.albertacourts.ab.ca](http://www.albertacourts.ab.ca).**

**APPENDIX "A"**

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**Documents Presented at the Hearing and Considered by the Board**

| <u>EXHIBIT NO.</u> | <u>ITEM</u>  |
|--------------------|--|
| A1                 | Hearing Materials including Complaint Form and Notice of Hearing, 10 pages |
| C1                 | Complainant's Disclosure, 96 pages   |
| R1                 | Respondent's Disclosure, 74 pages  |
| R2                 | Respondent's Addenda referred to in Table of Contents of Exhibit R1        |
| C2                 | Complainant's Rebuttal, 36 pages   |