

# Central Alberta

Regional Assessment Review Board

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Decision: **CARB 0262 708/2016**  
Complaint ID 708  
Roll No. 30001943110

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COMPOSITE ASSESSMENT REVIEW BOARD DECISION  
HEARING DATE: July 25, 2016

PRESIDING OFFICER: B. Hisey  
BOARD MEMBER: D. Moore  
BOARD MEMBER: B. Schnell

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BETWEEN:

SQUIRREL INN INC.

Complainant

-and-

CITY OF RED DEER

Respondent

This decision pertains to a property assessment complaint submitted to the Central Alberta Regional Assessment Review Board in respect of a property assessment prepared by the Assessor of The City of Red Deer as follows:

ROLL NUMBER: 30001943110  
MUNICIPAL ADDRESS: 6846 – 66 Street  
ASSESSMENT AMOUNT: \$7,784,400

The complaint was heard by the Composite Assessment Review Board on the 25<sup>th</sup> day of July 2016, at The City of Red Deer, in the province of Alberta.

Appeared on behalf of the Complainant:  
James Phelan, Agent for Colliers International Realty Advisors Inc.

Appeared on behalf of the Respondent, The City of Red Deer (“the City”):  
Maureen Cleary and Jason Miller, Revenue & Assessment Services

**DECISION:** The assessed value of the subject property is Confirmed.

## **JURISDICTION**

- [1] The Central Alberta Regional Assessment Review Board [“the Board”] has been established in accordance with section 456 of the *Municipal Government Act*, RSA 2000, c M-26 [“MGA”], and City of Red Deer Bylaw No. 3474/2011, *Regional Assessment Review Board Bylaw*.

## **PROPERTY DESCRIPTION AND BACKGROUND**

- [2] The subject property is a limited service hotel known as the Comfort Inn & Suites. The 1.5 acre site is located at 6846 – 66 Street in Red Deer, Alberta. The 50,045 square foot (sf) building has a business centre, fitness room, pool and 88 accommodation units. The 4-storey structure was constructed in 2005.
- [3] The current assessment of \$7,784,400 was calculated using the income approach, and a capitalization rate of 10%.

## **PRELIMINARY MATTERS**

- [4] The Board Chair confirmed that no Board Member raised any conflicts of interest with regard to matters before them.
- [5] Neither party raised any objection to the panel hearing the complaint.
- [6] The Board confirmed the submissions of the parties and entered the following Exhibits into the record:  
A1 – Hearing Materials including Complaint Form and Notice of Hearing (10 pages)  
C1 – Complainant Brief (175 pages)  
R1 – Respondent Brief (85 pages)

## **ISSUES**

- [7] The Board considered the parties’ positions and determined the following questions are to be addressed within this decision:
1. What is the appropriate nightly rate for the subject property?
  2. Is the current assessment derived using the income approach and a capitalization rate of 10%, in excess of market value?

## **POSITION OF THE PARTIES**

### **Position of the Complainant**

- [8] The Complainant described the subject property and provided the current assessment notice of \$7,784,400 or \$88,459 per unit. Colliers is asking for a reduction to \$6,201,500 or \$70,472 per unit.

- [9] A hotel market report published by HVS provided an overview of declining economic fortunes to explain reduced average hotel occupancy rates in Alberta. Charts were presented to depict average daily rentals, declining transaction volumes and price per door for hotels. The Complainant suggested that the actual hotel operation supports these findings as occupancy has gone down from 81% in 2013, to 54% in 2015; there has been a further slip to 46.49% for occupancy in 2016.
- [10] The Complainant stated that although the income approach should be used to calculate the subject property assessment, the nightly rate of \$132 was in excess of market value for the region.
- [11] Using the direct comparison approach, the Complainant utilized a rental rate study completed during the summer of 2015 to support a reduced nightly rate for the subject property. An analysis of the 2015 rental rates was provided for the Red Deer area from internet providers Expedia, Travelocity, Trivago, Kayak and Tripadvisor. From this information the Complainant determined an average rental rate \$112.89, and a median figure of \$115.50. It was concluded that a rental rate of \$113 per night would be more appropriate than the \$132 rate used for subject assessment calculations.
- [12] To support the reduced assessment, the Complainant provided the actual review per available room ("REVPAR") for the subject, which was shown to be \$84.59 per night (three year average); therefore REVPAR divided by an occupancy of 80% shows a rate of \$105. The Complainant used a rate between the subjects' actual rate and overall market information, to determine the requested \$105 per night rate.
- [13] Simply adjusting the rental rate for the proforma used by the City (utilizing the 10% capitalization rate) reduces the assessment to \$6,192,000, or \$70,364 per suite.
- [14] Using a three year (2011 – 2014) report of actual financial data, the Complainant determined a stabilized net operating income before furniture, fixtures, equipment ("FF & E") and reserves to be \$831,973. This figure translates to an assessment of \$6,581,500 for the subject property, which supports a reduction to the current assessment.
- [15] The Complainant was also dissatisfied with the City's use of 10% for the capitalization (CAP) rate and reviewed the preferred methods for determination of same from Edmonton and Calgary.
- [16] To further support a reduction in the current assessment, the Complainant presented a Capitalization Rate Study using 14 sales of similar hotels in Alberta. The comparables were reviewed and showed that the overall cap rate should be higher than 10.1%, lower than 11.61%, but similar to 10.87% and 11.12%. Overall the Complainant concluded an 11.00% CAP rate to be appropriate.
- [17] A proposed assessment was generated by the Complainant using a stabilized net operating income of \$682,218 and a capitalization rate of 11%, providing the requested value of \$6,201,500 (rounded) or \$70,472 per door.

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- [18] A secondary valuation method used to support the proposed assessment reduction by the Complainant was the direct comparison approach. The same 14 sales comparables used in the Capitalization Rate Study were used to determine that the subject must be lower than \$112,500 per door, more than \$57,803 per door, and similar to \$71,429 per door. Colliers believes a reasonable estimate of market value to be \$71,000 per door (x 88 units or \$6,248,000). Again reinforcing the request for a reduction to the current assessment.
- [19] In conclusion, the Complainant used three approaches to value: market value based on (1) nightly rates, (2) income approach (stabilized), and (3) direct sales approach. The stabilized net operating income ("NOI") was determined to be the most appropriate, for a requested revised assessment of NOI at \$6,201,500.

### **Position of the Respondent**

- [20] The Respondent presented an economic profile for the City of Red Deer. Highlighting the size (third largest city in Alberta), market access, competitive advantages, and key industries. All factors that make Red Deer stand ahead of other smaller cities in the province.
- [21] A hotel overview was provided showing location maps and photos. In addition to locational advantages the subject property also has a breakfast room, pool, waterslide and fitness facilities.
- [22] The Respondent then outlined the methodology used to determine the assessment for the subject property. Information was provided that established correct legislative requirements had been applied to ensure a fair and equitable valuation, through the income method and mass appraisal.
- [23] The 2015 Hotel Assessment Methodology used by the City of Red Deer was reviewed. This assessment approach uses the direct capitalization method to convert the typical income of a property into market value.
- The City deducts a 20 % vacancy allowance, and a 3% reserve amount to account for any intangible or capital expenditures made by the hotel.
  - A further 15% reduction from the hotel income was made for FF & E in present use.
  - The balance remaining is then capitalized by 10% to calculate the final assessment value.
- The income calculation report showed a potential gross income of \$4,239,840 used in conjunction with the applied tangibles to produce an assessed value of \$7,784,400.
- [24] A three year stabilized income and expense report for the subject property was supplied to the Board for 2012 to 2014. This chart was prepared using the actual annual request for information (RFI) forms provided by representatives for the Comfort Inn and Suites. Although this information was not used in its entirety, when stabilized, the review produced a \$7,425,400 value.
- [25] The Respondent also noted that the stabilized median room rate of \$132 per night was used for the income calculation for the subject hotel, this figure was lower than the rate of \$136 supplied through the RFI by the owner.

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- [26] A review of the “type” of services and the differences between limited to full service hotel classes, and the quantitative and qualitative data used for these classifications was presented by the Respondent. The list of hotels/motels within Red Deer along with corresponding cap rates was provided to the Board (R1, page 24).
- [27] Although the subject was classified as a limited service facility, the Respondent noted the Bourbon Grill, located adjacent to the Comfort Inn, and owned by the same property owner, offered conference and banquet facilities for the hotel. This supplementary service advertised by the owner, provides a competitive advantage over other similar hotels.
- [28] The Respondent also provided information on the only arms-length sale of a hotel in Red Deer since July 1, 2012. The Travelodge sold in 2014 and showed a CAP rate of 9.7% further supporting the calculations and cap rate applied to the subject property by the City of Red Deer.
- [29] To validate the current assessment, eleven sales comparables were provided to the Board. Nine were for limited service hotels, with the most similar to the subject from Sherwood Park and Sylvan Lake.
- [30] The Respondent concluded the presentation requesting the Board to confirm the assessment of \$7,784,400.

## **BOARD FINDINGS and DECISION**

### **Issue 1**

- [31] The Board acknowledges the RFI provided by the property owner which stipulates a nightly rate of \$136, to be higher than the \$132 used in the calculations for the NOI.
- [32] Upon questioning it was determined that there were several inconsistencies within the charted rates on C1 pages 15-17 (i.e. subject property page 17, nightly rate \$93, and page 83 shows \$120, the Holiday Inn Express Red Deer was \$98 on page 15 and \$102 on page 79). It was also alleged by the Respondent that the rate could vary greatly depending on the rental day (Monday vs Saturday), and how far in advance the booking was made.
- [33] The Board was not provided with the room booking details, and was therefore unable to reasonably compare or specifically determine the nightly rates. Therefore the nightly rate of \$132 used for the subject property was considered appropriate.

### **Issue 2**

- [34] The Board examined the comparables provided by both the Respondent and Complainant and found that most similar sales were the Holiday Inn (Sherwood Park), Four Points by Sheraton (Nisku/Leduc County – post facto but had an agreed price the year prior to sale), and Comfort Inn & Suites (Sylvan Lake). These comparables required fewer adjustments for age/suite count/location etc. and supported the current assessment of the subject property.

- [35] The Board finds that sales comparables used by the Complainant to argue an 11% CAP rate have inferior locations and/or are substantially older than the subject property.
- [36] Section 467(3) of the *Municipal Government Act*, RSA 2000, c M-26 states that an assessment review board must not alter any assessment that is fair and equitable. Proving the incorrectness of an assessment is the responsibility of the individual alleging it. The Board was not presented with sufficiently compelling evidence on which a change to the assessment could be based. Therefore the assessment is confirmed.

### **DECISION SUMMARY**

- [37] The Board finds that the value of the property assessment at \$7,784,400 is Confirmed.
- [38] Dated at the Central Alberta Regional Assessment Review Board, in the city of Red Deer, in the Province of Alberta this 17 day of August, 2016 and signed by the Presiding Officer on behalf of all 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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Brenda Hisey  
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 MGA 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**

Documents Presented at the Hearing and considered by the Board

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<u>NO.</u>	<u>ITEM</u>
1. A1	Clerk Hearing Materials (10 pages)
2. C1	Complainant Brief (175 pages)
3. R1	Respondent Brief (85 pages)