2018 ASSESSMENT METHODOLOGY

HOTELS & MOTELS

A summary of the methods used by the City of Edmonton in determining the value of hotel and motel properties in Edmonton for assessment purposes.

edmonton.ca/assessment

Revised: January 22, 2018

Edmonton

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Scope

This guide is an aid in explaining how Hotel & Motel properties are valued for assessment purposes. The guide is intended as a tool; it is not intended to replace the assessor's judgment in the valuation process.

This icon signifies when legislation is quoted.

Introduction

Property assessments in the City of Edmonton are prepared in accordance with the requirements of the *Matters Relating to Assessment and Taxation Regulation,* 2018, Alta Reg 203/17*,* (hereinafter "*MRAT*"). This regulation establishes the valuation standard to be used, defines the procedures to be applied, and proposes objectives for the quality to be achieved in the preparation of assessments. The legislation requires the municipality to prepare assessments that represent *market value* by application of the *mass appraisal process.* All assessments are expected to meet quality standards prescribed by the province in the regulation.

Both *market value* and *property* are defined in the *Municipal Government Act*, RSA 2000, c M-26 (hereinafter the "*MGA*"):

> ***s. 1(1)(n) "market value"*** *means the amount that a property, as defined in section 284(1)(r), might be expected to realize if it is sold on the open market by a willing seller to a willing buyer;*

In summary, commercial property assessments represent:

- an estimate of the value;
- of the fee simple estate in the property;
- as it existed on December 31, 2017;
- would have realized if it had been sold on July 1, 2017;
- on the open market and under typical market conditions;
- by a willing seller to a willing buyer.

The assessment is a prediction of the value that would result when those specific, defined conditions are met.

> *"Fee simple interest [is] absolute ownership unencumbered by any other interest or estate…leased fee interest [is] the ownership interest held by the lessor, which includes the right to the contract rent specified in the lease plus the reversionary right when the lease expires….leasehold interest [is] the interest held by the lessee (the tenant or renter) through a lease conveying the rights of use and occupancy for a stated term under certain conditions."*
>
> Appraisal Institute of Canada, ***The Appraisal of Real Estate Third Canadian Edition***, Vancouver, Canada, 2010, page 6.4.

*s.284(1)(r) "**property**" means*

(i) a parcel of land
(ii) an improvement, or
(iii) a parcel of land and the improvements to it

MGA .s.284(1)(r)

*s.1(k) "**regulated property**" means*

(i) land in respect of which the valuation standard is agricultural use value,
(ii) designated industrial property, or
(iii) machinery and equipment

MRAT s.1(k)

*s.9(1) the **valuation standard** for the land and improvements is market value unless subsection (2)… applies*

MRAT s.9(1)

*s.1(1)(n) "**market value**" means the amount that a property, as defined in section 284(1)(r), might be expected to realize if it is sold on the open market by a willing seller to a willing buyer*

MGA s.1(1)(n)

*s.5 An assessment of property based on **market value***

(a) must be prepared using mass appraisal,
(b) must be an estimate of the value of the fee simple estate in the property, and
(c) must reflect typical market conditions for properties similar to that property

MRAT s.5

s.289(2) Each assessment must reflect

*(a) the characteristics and physical condition of the property on **December 31** of the year prior to the year in which a tax is imposed*

MGA s.289(2)(a)

*s.6 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*

MRAT s.6

*s.1(g) "**mass appraisal**" means the process of preparing assessments for a group of properties using standard methods and common data and allowing for statistical testing*

MRAT s.1(g)

Mass Appraisal

Mass appraisal is the legislated methodology used by the City of Edmonton for valuing individual properties, and involves the following process:

- properties are stratified into groups of comparable property
- common property characteristics are identified for the properties in each group
- a uniform valuation model is created for each property group

*31(c) "**valuation model**" means the representation of the relationship between property characteristics and their value in the real estate marketplace using a mass appraisal process*

MRAT s.31(c)

The following two quotations indicate how the International Association of Assessing Officers distinguishes between mass appraisal and single-property appraisal:

… "single-property appraisal is the valuation of a particular property as of a given date: mass appraisal is the valuation of many properties as of a given date, using standard procedures and statistical testing."

… "Also, mass appraisal requires standardized procedures across many properties. Thus, valuation models developed for mass appraisal purposes must represent supply and demand patterns for groups of properties rather than a single property."

Property Appraisal and Assessment Administration, pg.88-89.

For both mass appraisal and single-property appraisal, the process consists of the following stages:

	Mass Appraisal	Single Appraisal
Definition and Purpose	Mass appraisal is used to determine the assessment base for property taxation in accordance with legislative requirements	The client specifies the nature of the value to be estimated, including rights to be valued, effective date of valuation, and any limiting conditions
Data Collection	Mass appraisal requires a continuing program to maintain a current database of property characteristics and market information.	The extent of data collection is specific to each assignment and depends on the nature of the client's requirements
Market Analysis	Mass appraisal is predicated on highest and best use	Market analysis includes the analysis of highest and best use
Valuation Model	Valuation procedures are predicated on groups of comparable properties	Subject property is the focus of the valuation. The analysis of comparable properties is generally six or less
Validation	The testing of acceptable analysis and objective criteria	The reliability of the value estimate is more subjective. Acceptability can be judged by the depth of research and analysis of comparable sales

Valuation Model

A valuation model creates an equation of variables, factors and coefficients that explains the relationship between estimated market value and property characteristics. An assessed value is then calculated by applying the appropriate valuation model to individual properties within a property type.

*s.31(a) "**coefficient**" means a number that represents the quantified relationship of each variable to the assessed value of a property when derived through a mass appraisal process*

*(b) "**factor**" means a property characteristic that contributes to a value of a property;*

*(d) "**variable**" means a quantitative or qualitative representation of a property characteristic used in a valuation model*

***MRAT**, s.31 (a), (b) and (d)*

s.33(3) Information prescribed…does not include coefficients

***MRAT**, s.33(3)*

Valuation Model	● variables are created from property characteristics ● analysis of how variables affect market value ● factors and coefficients are determined ● the resulting valuation models are applied to property characteristics

Approaches to Value

The most common approaches to determine market value are the direct sales, income, and cost. Each emphasizes a particular kind of market evidence.

Direct Sales Approach	Typical market value (or some other characteristic) is determined by referencing comparable sales and other market data. It is often used when sufficient sales or market data is available. It may also be referred to as the Sales Comparison Approach.
Income Approach	This approach considers the typical actions of renters, buyers and sellers when purchasing income-producing properties. This approach estimates the typical market value of a property by determining the present value of the projected income stream. Often used to value rental or leased property.
Cost Approach	Typical market value is calculated by adding the depreciated replacement cost of the improvements to the estimated value of land. It is often used for properties under construction or when there is limited market data available.

Sales Study

Sales information is received from Land Titles. Sales are verified and validated by conducting site inspections and interviews, and by reviewing title transfers (change of ownership), sales validation questionnaires, and secondary data collection sources. The resulting verified and validated sales are used to develop capitalization rates to determine market value in the income approach. Sales reflect the condition of a property as of the sale date and thus may not always be equivalent to their assessed value.

For valuation of Hotel and Motel properties, sales occurring from **July 1, 2012** to **June 30, 2017** are used.

Request for Information (RFI)

In order to facilitate the valuation process, property owners are annually requested to provide three components via the legislated Request for Information (RFI) process, that comprises of:

- A completed **Hotel Motel Survey** that asks for specific information about the hotel's profile and operations such as Occupancy Rate, Average Daily Room Rates, FF&E and Capital Expenditures, Reserve for Replacement, and information pertaining to a major renovation.
- Most recent three years of accountant-prepared, year-end **Financial Statements** that includes the **Income Statements, Schedules of Income and Expenses** and **Notes**.
- A completed **Commercial Tenant Rent Roll** that ask for information of third-party leases that are held within the hotel property, as applicable.

Hotel Motel Valuation

Hotels are income producing properties that trade based on their income generating capabilities. For the purpose of assessment, these properties are valued on the Income Approach via Direct Capitalization Method. Below is the list of variables that affect the assessment value for 2018.

Hotel/Motel Stratification	Hotel Revenues	Hotel Expenses
Furniture, Fixtures & Equipment (FF&E)	Intangibles and Business	Capitalization Rate

Hotel Stratification

Hotels and Motels are designed and located to attract specific markets. Because hotel designs, facilities, amenities, and locations differ and directly impact financial operating results, it is important to define and accurately classify the different characteristics of lodging facilities (*Hotels Motels & Valuations and Market Studies, 2001, p. 155*).

Resort Hotels generally target family and leisure travelers. They may be adjacent or located near recreational facilities such as amusement theme parks, waterpark, golf courses, gaming & casino, ski slopes, or scenic areas. These type hotels are typically larger and offer a more exclusive, luxury chain.

Downtown Full-Service Hotels may range from luxury to mid-price and offer amenities such as restaurant, lounge, and conference & meeting rooms. They provide guest services such as concierge and room services. These hotels report Food and Beverage Departmental Revenues on their financial statements. These hotels are located within the boundaries of 105th Avenue to the North, 95th Street to the East, the North Saskatchewan River to the South and 109th Street to the West.

Suburban Full-Service Hotels may range from luxury to mid-price and offer amenities such as restaurant, lounge, and conference & meeting rooms. They often provide guest services such as concierge and room services. These hotels report Food and Beverage Departmental Revenues on their financial statements. These hotels are located outside of the Downtown boundaries of 105th Avenue to the North, 95th Street to the East, the North Saskatchewan River to the South and 109th Street to the West.

Limited Service Hotels have mainly room operations only. The hotel often have food and beverage that is operated by a third-party from the hotel's operations, and therefore do not report a Food and Beverage Departmental Revenues on their financial statements. These hotels are often economy-type hotels with very few other services and amenities offered by Full-Service hotels.

Beverage Hotels are generally facilities typically with less than 100 guest rooms. Majority of their business revenues are derived from the Food and Beverage operating department.

Motels are generally located along roadsides designed primarily for motorists. Typically, a low- rise building with exterior room access. Budget-type rooms that may range from daily room rates to extended stays of weekly or monthly room rates.

Hotel Revenue

Hotel Revenue is the sum of the amounts for all five categories of operating revenues with the exception of Limited and Motel stratified properties as these properties do not report a Food and Beverage Department on their financials.

Operating Revenues

Room Revenue: Primary source of revenue from the rental of rooms and suites to guest. Examples of the types of Room Revenue reported on financial statements include Transient Rooms Revenue, Group Rooms Revenue, Contract Rooms Revenue, and Other Rooms Revenue (such as weekly, bi-weekly, or monthly lodging).

Food and Beverage Revenue: Revenues of all sales of food and beverage from guests and patrons. Examples may be Venue Food Revenue, In-Room Dining Food Revenue, Banquet / Conference/ Catering Food Revenue, Mini-Bar Food Revenue and Other Food Revenue.

Other Operated Department Revenues: Other department(s) owned and operated by the hotel in generating revenue for profit and have direct operating expenses. Examples of Other Operated Department Revenue items would be Parking Revenue, Guest Laundry Service, Business Center, Guest Shop, and Retail Shop.

Rent and Lease Revenue: Rental or concessions agreement between the hotel and retail tenant, offering hotel guest services and merchandises that are not provided by the operating department. Examples may be Gift Shops, Restaurants, Retail Stores, and Lease Parking.

> *Reported rent and lease revenues from retail tenants are <u>removed</u> from the Total Operating Revenue, and the leased area is assessed as Ancillary space. In similar fashion, the corresponding rent and lease expenses are also <u>removed</u> from the Total Departmental Expense.*

Miscellaneous Revenue: Consist of sub-accounts or sub-schedules to provide more detail related to a particular income item. Items included in this category would be Attrition Fees, Cancellation Fees, Cash Discounts Earned, Foreign Currency Gain, and Interest Income.

Below is a chart showing the types of revenue generated by each hotel/motel type:

Hotel Stratification	Room Revenue	Food & Beverage Revenue	Other, Rental and Misc. Revenue
Resort	Yes	Yes	Yes
Full Service - Downtown	Yes	Yes	Yes
Full Service - Suburban	Yes	Yes	Yes
Limited Service	Yes	No	Yes
Beverage Motels	Yes	Yes	Yes
Motel	Yes	No	Yes

Hotel Expenses

The expense of a hotel are typically allocated to one of three categories that reflects the nature of the expense: departmental operating expenses, undistributed operating expenses, and fixed expenses. These categories are then further categorized into a number of categories.

Departmental Operating Expenses

These expenses are related to an operating department revenue category.

Room Expenses: Room expenses consist of two major categories: Labour Cost and Related & Other Expenses. All payroll items associated with this department includes Salaries, Wages, Service Charges, Contracted Labor, and Bonuses. Room Related & Other Expenses include items such as Room Cleaning Supplies, Commissions and Fees, Room Laundry, and Linen.

Food & Beverage Expenses: Food & Beverage Expenses consist of two major categories: Cost of Food & Beverage Sales and Related & Other Expenses. Cost of Sales includes the cost of food served in all segments of food revenues. F & B Related and Other Expenses includes the cost associated with sale and service items such as Labour Cost , Banquet Expenses, Flatware, Glassware, Linen, Kitchen Cleaning & Supplies, and Uniform.

Other Departmental Expenses: Other Departmental Expenses are associated cost of sales and/or services to the corresponding Other Revenues. Items may include Labour Cost, Cost of Goods Sold, and Equipment Rental.

Rent and Lease Expenses: Rent and Lease Expenses are associated cost of sales and/or services to the corresponding Rent and Lease Revenues. Items may include Labour Cost, Cost of Goods Sold, and Rental Expenses.

Miscellaneous Expenses: Miscellaneous Expenses are associated cost of sales and/or services to the corresponding Miscellaneous Revenues ledger. Items may include Labour Cost, Cost of Goods Sold, and Foreign Currency Exchange Loss, and Interest Expenses.

Undistributed Operating Expenses

These expenses are considered applicable to the entire property. It is not appropriate to allocate these types of expenses to specific departments.

Administration & General: Admin & General expenses consists of two major categories: Salaries & Wages and Related Expenses. All payroll items associated with this department including General Manager Salary, Employee Benefits and Bonuses. Related Expenses includes items such as Bank Interest and Charges, Credit Card Commission & Collection Fees, Donations, Dues and Subscriptions, Equipment Rental, Legal Services, Licenses and Permits, Professional Fees, Travel, Meals and Entertainments.

Information and Telecommunication Systems: Items classified under this expense includes the hotel's centralized information system charges such as accounting and security systems, point-of-sale reporting program, and internal reservation systems. This category does not include transaction costs or commissions related to third party reservation or booking systems, or Telecommunications System for the hotel (i.e VoIP, T-1).

Sales & Marketing: Marketing expenses consist of two major categories: Salaries & Wages and Related Expenses. All payroll items associated with this department includes Salaries, Wages, Employee Benefits, Bonuses and Contracted Work. Related Expenses includes the associated cost of sales of goods and service items such as Entertainments, Equipment Rental, Loyalty Programs, Operating Supplies, Promotion, Trade Shows, Training, Travel, Website, and Decorations.

Property Operations and Maintenance: Maintenance expense consist of two major categories: Salaries & Wages and Related Expenses. All payroll items associated with this department includes Salaries, Wages, Employee Benefits, Bonuses and Contracted Work. Related Expenses may include maintenance expense items such as Building, Electrical, Plumbing, Elevators, Kitchen & Laundry Equipment, Lights, Painting and Wallcovering, Swimming Pool, Vehicle Repair, Waste Removal, and Travel & Training.

Utilities: Expense items attributing to this departmental expense would be Electricity, Gas, Oil, Steam, Other Fuels, Contracted Services and Water/Sewer. Cost expenses to this account would include the associated fee items such as Taxes, Bulk/Future Purchase Fee, and Water Treatment/Filtration/Septic Tank costs.

Management Fees: Management Fee is the contractual agreement cost between a third-party management company (Operator) and the hotel property owner (Investor). The Operator assumes complete responsibility for managing the hotel.

Franchise Fee: Franchise Fee is the contractual agreement cost between a hotel / motel company (a national or regional chain) and an independent hotel owner. The owner pays an annual negotiated fee (typically a percentage of the hotel's total annual gross revenues) to use the name, trademarks, and various services offered by the chain.

Fixed Expenses

Fixed expense by definition are costs that do not change with an increase or decrease in the amount of goods or services produced or sales volume.

Property Insurance: General insurance costs that includes premiums relating to liability and the property's business building and contents against damage or destruction by fire, weather, sprinkler leakage, terrorism, flood, boiler explosion, or plate glass breakage.

Property Tax: All taxes assessed against the real property by a government or public agency. City of Edmonton retrieves actual invoiced property tax amounts from the City's Assessment and Taxation system when ascribing the Property Tax expense amount on the subject hotel / motel's proforma.

Non-Allowable Expenses

These are expenses that often appear on financial statements but do not form part of property valuation.

- **Capital Expenditures** – Not included because they provide additions or major improvements to the property that typically increase value and economic life.
- **Debt Service/Mortgage interest payments** – Interest and principle required to amortize a loan; it is a financing expense and not an operating expense.
- **Income Tax** – Not included because it is not an operating expense, it is a tax on personal income which may be affected by things other than the subject property.
- **Depreciation and Amortization** – Not included because in the income approach it is recaptured in the capitalization.
- **Video Lottery and Gaming** – Current jurisprudence in Alberta, video lottery terminals and their income s are not assessable for property taxes. However, the space occupied is assessable at its market value in the same way shopping centres apply the retail conditions for a kiosk.
- **Expenses not required to maintain the property income** – Certain expenses may not be included because these are expenses not related to the property. Examples of this include donations, litigation, bank charges, amortization, etc.

Stabilization

Reported actual revenues and expenses are stabilized over the three preceding years and the expenses are then normalized, as recommended by the *Province of Alberta - Municipal Affairs Hotel Motel Valuation Guide*, in order to capture industry performance and adjust for unforeseeable or atypical events that may significantly interrupt normal operations within the hotel.

Hotel and motels typically operates on short-term occupancies that range from a day to a week, and therefore the operating performance is sensitive to industry volatility and tends to fluctuate from year to year. The City of Edmonton stabilizes hotel/motel's revenue and operating expenses to derive a net operating income to be reflective of anticipated performance over its remaining economic life.

Stabilization accounts for the periodic life cycles of a hotel/motel such as growth, maturation, and declines. It may also mitigate or adjust for extraordinary events deemed temporary or non-recurring impacting revenues or expenses outside of hotel/motel's normal operations.

The City of Edmonton uses a **70-20-10** weighing of three years of revenue and expenses, with the greater weighting placed on the most recent **fiscal year-end financial statements** prepared by an accountant prior to valuation date as of **July 1st, 2017**.

Example Scenario: A hotel's fiscal year-end is December 31, 2016.

70%	20%	10%
Year-end Financial Statement dated December 31, 2016	Year-end Financial Statement dated December 31, 2015	Year-end Financial Statement dated December 31, 2014

If a property did not submit complete or usable financial statements at the time of the Request for Information period, a projected revenue adjustment is ascribed based on the City of Edmonton's **Occupancy** and **Average Daily Room Rate** study from returned RFI's of similar stratified hotel and motels.

Industry Norms

Once expenses have been collected from property owners through the RFI process, the appropriate data is analyzed according to operating expense categories to derive the **Industry Norms** (or **typical expenses ratios**), so that consistent valuation parameters and other statistical measures can be developed across each hotel stratification type. An expense ratio is calculated by dividing the stabilized expense by the associated revenue.

In cases where a financial statement has not been provided, is incomplete, or reported expenses deviate from normal or historical operations, an estimate of potential expenses is derived by ascribing the industry norms of similar stratified hotels/motels.

Normalization

Once the Industry Norm percentages are established, the actual expenses will be compared to the **+/- 10%** range from the industry norm percentage; this process is called **Normalization**. If actual expense ratios fall inside this range, then the actual expense ratio calculated for the building is used.

If actual expense ratios fall outside of the **+/- 10%** range, then the industry norm is applied. For example. when the actual expense ratio is lower than the **-10%** variance, then the low end of the industry norm range is used. And when the actual expense ratio is higher than the **+10%** variance, then the high end of the industry norm range is used.

	Typical	Actual	Factor Used	Range -10%	Range 10%	
Rooms	30.0%	31.5%	31.5%	27.0%	33.0%	If ratio falls within -10%/+10%, **Actual ratio** is used.
Food & Beverage	45.0%	51.0%	49.5%	40.5%	49.5%	If ratio falls above +10% range, the **+10% maximum ratio** is used.
Other Operated Departments	10.0%	8.5%	9.0%	9.0%	11.0%	If ratio falls below -10% range, the **-10% minimum ratio** is used.

Application of Normalization for Allowable Expenses

Below is a chart that indicates whether a typical or actual expense ratio is applied for each expense category:

Expense Type	Typical Expense Ratio Used	Actual Expense Ratio Used
Room	X	
Food & Beverage	X	
Other, Rental, Misc.		X
Administration & General	X	
Information & Telecommunication System		X
Sales & Marketing	X	
Property Operations & Maintenance	X	
Utilities	X	
Management Fees	X	
Franchise Fees		X
Property Insurance	X	
Property Taxes		X

Furniture, Fixtures and Equipment (FF&E)

FF&E are tangible non-realty assets or movable property of a business enterprise not classified as stock, inventory, or leasehold improvements. FF&E generally wears out much more rapidly than other components of a hotel or motel. This category contains Guest Room, Dining Room and Lounge furnishings; Kitchen Equipment, Front Office and Administrative Equipment, Decorative Items, Flooring, Linens, Glassware, and China.

The City applies a consistent allowance within each stratification: **15%** FF&E Allowance for Full Service and Resort hotels; **10%** FF&E Allowance for Limited Hotels, Beverage Hotels and Motels.

Intangibles and Business Component

This category represents the goodwill of the business, and is a percentage of the '*Net Operating Income Before Fixed Charges*' on the Assessment Proforma: **1.5%** allowance for Full Service and Resort hotels; **1.0%** allowance for Limited Hotels, Beverage Hotels and Motels.

Capitalization Rate

The Capitalization Rate is the rate reflecting the relationship between the Assessable Net Operating Income and the Market Value to Real Estate of the property. The Cap Rate converts the *Assessable Net Operating Income* into an indication of property value. The Cap Rate, in its basic formula, is found by dividing *Assessable Net Operating Income* by the *Sale Price*. Capitalization rate is applied based on Stratification.

The chart below summarizes the rates applied for **Capitalization Rate**, **Intangibles & Business Component**, and **Furniture**, **Fixtures, & Equipment** for each Stratification. These rates are derived from sales of comparable properties and the information provided from property owners through the RFI process.

Stratification	Capitalization Rate	Intangibles & Business Component	Furniture Fixtures & Equipment
Resort	9.0%	1.5%	15%
Full Service - Downtown	9.0%	1.5%	15%
Full Service - Suburban	9.5%	1.5%	15%
Limited Service	9.5%	1.0%	10%
Beverage	10.0%	1.0%	10%
Motels	10.0%	1.0%	10%

Sample Assessment Detail Report

Building: City of Edmonton Hotels and Motels
Roll #: 123456789
Address: 123456
Stratification: Downtown Full-Service
Rooms: 123

Assessment Year 2018

Identifies Hotel/Motel Stratification and Property Profile.

	Total	Per Room	%	
Operating Revenues				Actual Operating Revenues stabilized over the three preceding years.
Rooms	$4,600,000	$37,398.37	*51.6%*	
Food & Beverage	$3,600,000	$29,268.29	*40.4%*	
Other Operated Departments	$660,000	$5,365.85	*7.4%*	
Rental Income	$52,000	$423	*0.6%*	
Miscellaneous	$8,400	$68	*0.1%*	
Total Operating Revenues	**$8,920,400**	**$72,524**	*100.0%*	**Total Operating Revenues** = Room Revenues + Food & Beverage Revenues + Other Operated Department Revenues + Rental Revenue s+ Miscellaneous Revenues
Departmental Operating Expenses				
Rooms	$1,472,000	$11,967.48	*32.0%*	Stabilized Room Expenses divided by Room Revenue.
Food & Beverage	$2,448,000	$19,902.44	*68.0%*	Stabilized Food & Beverage Expense divided by Food & Beverage Revenue.
Other Operated Departments	$44,602	$362.62	*0.5%*	Stabilized Other Operated Departments divided by Total Operating Revenues. Stabilized Rental divided by Total Operating Revenues Stabilized Miscellaneous divided by Total Operating Revenues
Rental Income	$89,204	$725	*1.0%*	
Miscellaneous	$17,841	$145	*0.2%*	
Total Departmental Expenses	**$4,071,647**	**$33,103**	*45.6%*	**Total Operating Expenses** = Rooms Expense + Food & Beverage Expense + Other Operated
Net Departmental Income	**$4,848,753**	**$39,421**	*54.4%*	**Total Departmental Income = Total Operating Revenues - Total Departmental Expenses**
Undistributed Operating Expenses				
Administrative & General	$802,836	$6,527.12	*9.0%*	Stabilized Administration & General divided by Total Operating Revenues. Stabilized Information and Telecommunication Systems divided by Total Operating Revenues. Stabilized Sales & Marketing divided by Total Operating Revenues. Stabilized Property Operation and Maintenance divided by Total Operating Revenues. Stabilized Utilities divided by Total Operating Revenues. Stabilized Management Fee divided by Total Operating Revenues. Stabilized Franchise Fee divided by Total Operating Revenues.
Information & Telecommunicaitons Systems	$44,602	$363	*0.5%*	
Sales & Marketing	$356,816	$2,900.94	*4.0%*	
Property Operation & Maintenance	$490,622	$3,988.80	*5.5%*	
Utilities	$383,577	$3,118.51	*4.3%*	
Management Fee	$356,816	$2,900.94	*4.0%*	
Franchise Fee	$356,816	$2,901	*4.0%*	
Total Undistributed Operating Expenses	**$2,792,085**	**$22,700**	*31.3%*	**Total Undistributed Operating Expenses** = Administrative & General + Information and Telecommunicaitons System + Sales & Marketing + Property Operation and Maintenance + Utilities + Management Fee + Franschise Fee
Net Operating Income Before Fixed Charges	**$2,056,668**	**$16,721**	*23.1%*	**Total Departmental Income = Total Operating Revenues - Total Departmental Expenses**
Fixed Expenses				
Property Insurance	$44,602	$363	*0.5%*	Stabilized actual Property Insurance divided by Total Operating Revenues. Stabilized actual Property Taxes divided by Total Operating Revenues.
Property Tax	$338,975	$2,756	*3.8%*	
Total Fixed Expenses	**$383,577**	**$3,119**	*4.3%*	**Total Fixed Expenses** = Property Insurance + Property Taxes
Net Operating Income	**$1,673,091**	**$13,602**	*18.8%*	**Net Operating Income = Net Operating Income Before Fixed Charges - Total Fixed Expenses**
Less % of NOI before Fixed Charges: Furniture, Fixtures, & Equipment	$308,500	$2,508	15.0%	FF&E = Net Income Before Fixed Charges x 15.0%
Less % of NOI before Fixed Charges: Intangibles & Business Component	$30,850	$251	1.5%	Intangibles & Business Components = Net Income Before Fixed Charges x 1.5%
Assessable Income to Real Estate	**$1,333,741**	**$10,843**		**Assessable Income to Real Estate = Net Operating Income** - FF&E - Intangible & Business Component
Capitalization Rate	9.00%			
Market Value to Real Estate	$14,819,340			**Market Value = NOI** divided by **Capitalization Rate**
Ancillary Value	$1,500,000			**Refer to ANCILLARY page**
Parkade	$2,000,000			
Total Assessment for 2018 Tax Roll	$16,319,340			**Total Assessment for 2017 Roll = Maket Value to Real Estate + Ancillary Value + Parkade**
Total Assessment for 2018 Tax Roll (Rounded)	**$16,319,000**	**$132,675**		**FINAL MARKET VALUE**

Ancillary Space Income Approach Variables

Ancillary Space: Ancillary space(s), not captured in the hotel pro forma, is space that is leased to a third party, so it is valued separately from the hotel. The total value of this leased space is added to the hotel assessment to arrive at a final value for the entire hotel property.

- **Office** spaces are designed for general commercial occupancy, including administrative, government and corporate uses. Location of the hotel affects the rental rates applied to office spaces in hotels. Please refer to *2018 Assessment Methodology - Retail and Retail Plaza* for location definitions. Rental rates for office spaces will be derived in accordance with the *Retail and Retail Plaza* methodology guide. The capitalization rate applied to the office spaces will be consistent with that applied to the entirety of the hotel property.

- **Retail** spaces are leased to facilitate commercial transactions. Size, and location of the hotel affect the rental rate applied to retail spaces in hotels. Please refer to *2018 Assessment Methodology - Retail and Retail Plaza* for size and location definitions. Rental rates for retail spaces will be derived in accordance with the *Retail and Retail Plaza* methodology guide. The capitalization rate applied to the retail spaces will be consistent with that applied to the entirety of the hotel property.

- **Parking** is typical charged a monthly rate per parking stall. Parking type and location of the hotel affect the rate applied to parking stalls for hotels. In some instances, no additional income will be attributed to parking.
    - **Parking Types:**
      Underground: Parking located in a parking structure that is fully enclosed and protected from the outside elements.
      Aboveground: Parking located in a parking structure that has minimal protection from the outside elements. There is overhead coverage, but no protection on the sides.
      Covered: Parking located on ground level that is not in a parking structure and has limited protection from the outside elements.

    - **Location (*for Full-Service Hotels*):**
      Downtown: located within the boundaries of 105th Avenue to the North, 95th Street to the East, the North Saskatchewan River to the South and 109th Street to the West.
      Suburban: located outside of the Downtown boundaries of 105th Avenue to the North, 95th Street to the East, the North Saskatchewan River to the South and 109th Street to the West.

Other Ancillary Space Income Approach Definitions

Typical Market Rent is the rent currently prevailing in the market for properties comparable to the subject property (otherwise known as *Current Economic Rent*). Current economic or market rents are used to form the basis of the valuation as opposed to actual rents, because in many cases actual rents reflect historical revenues derived from leases negotiated before the valuation date. In determining potential gross income, the assessor is not bound by the contractual rent between the landlord and tenant, but must determine rental income on the basis of what is typically paid in the market at the time of valuation.

Base Rent / Net Rent is the stipulated or contract rent exclusive of additional charges to the property (taxes, insurance, utilities and maintenance). Base and net rent do not include GST.

Triple Net Rent is the rental structure where the tenant (lessee) pays all charges to the property (e.g.: taxes, insurance, utilities, maintenance) in addition to the stipulated or contract rent. Structural repairs are excluded from the tenant responsibility.

Effective Net Rent is the rental term identifying the rental amount (usually in dollars per square foot of leased area) after adjustments have been made accounting for free rent periods, plus the present value of tenant improvement allowances and other inducements such as free parking.

Lease types include the terms gross lease, modified gross lease, single net lease, double net lease, and triple net lease. These may not always mean the same thing in different markets. The expenses that are included in each type of rent vary from market to market. In general, the following distinctions can be made:

- *Gross lease* - tenant pays rent and property owner pays expenses
- *Modified gross lease (sometimes semi-gross)* - tenant and property owner share expenses
- *Single net lease* - tenant pays utilities and taxes or insurance, and property owner pays structural repairs, property maintenance, and property taxes or insurance
- *Double net lease* - tenant pays utilities, taxes, and insurance, and property owner pays structural repairs and property maintenance
- *Triple net lease* - tenant pays utilities, taxes, insurance, and maintenance, and property owner pays for structural repairs only

Operating Expenses (OE) are the periodic expenditures necessary to maintain the real property and continue the production of the effective gross income; these are accounted for by the vacancy shortfall and structural allowances in the pro forma.

Common Area Maintenance (CAM) are the charges that reflect the costs of operating the interior and exterior common areas of a commercial property, and therefore include expenses for cleaning, utilities, heating, insurance, garbage & snow removal, and management fees.

Potential Gross Income (PGI) is the total current market rent for all space types that would be collected if the property were fully occupied at the date of valuation. In estimating PGI, the assessor distinguishes between market rent and contract rent. Market rent is the rate prevailing in the market for comparable properties and is used in calculating market value by the income approach. Contract rent is the actual amount agreed to by landlord and tenant.

Potential gross income is derived by multiplying all Gross Leasable Areas (GLA) in the building by the current market rent for each particular space type.

GLA X Market Rent for Space = PGI

Vacancy Allowance is a deduction from the potential gross income for typical vacancy and collection losses, assuming current market conditions and typical management. Vacancy losses are best described as an allowance for vacant space. Collection losses are considered unpaid rents that the landlord is unlikely to recover. These allowances are usually expressed as a percentage of potential gross income. Variations in vacancy allowance (such as chronic vacancy) can occur if vacancy greater than 10% is experienced for at least 3 consecutive years immediately preceding the valuation date. An allowance reflecting the stabilized chronic vacancy (See chart below) is applied on a per building basis.

Effective Gross Income (EGI) is the anticipated income from all operations of real property adjusted for vacancy and collection loss.

PGI - Vacancy Allowance = EGI

Net Operating Income (NOI) is the actual or anticipated (before income tax) net income from the operation of the property after deducting all expenses from the effective gross income but before debt servicing costs. The term is often abbreviated to net income and sometimes stated as net income before recapture.

EGI - OE = NOI

Structural Allowance is an allowance provided to cover items which require periodic replacement because they wear out more rapidly than the building itself. Typically under the terms of conventional triple net leases, all operating expenses and property taxes are fully recouped by the landlord from the tenant. The only exception relates to items of a structural and/or capital nature, which are normally excluded from such recoveries. ***Rather than lump sum deductions, a structural allowance is applied annually over the economic life of the property regardless of whether any expenses were incurred in any given year.***

Overall Capitalization Rate (Cap Rate) is the rate reflecting the relationship between the anticipated net operating income from a single year (or an average of several years) and the total price or value of the property. The cap rate converts net operating income into an indication of property value. The cap rate, in its basic formula, is found by dividing net operating income by the sale price.

NOI ÷ CAP RATE = MARKET VALUE ESTIMATE

Sample Ancillary Space Proforma

Ancillary Proforma

Roll #: 123456789
Address: 123456
Tax Year: 2018

Main Floor	Business Name	Leased Size (sq.ft)	Rate ($ / sq.ft)	Total
Office			$ -	$0
Retail	ABC Ltd.	10000	$ 30.00	$300,000
Warehouse			$ -	$0
Parking			$ -	$0
Other			$ -	$0
	Total	10000		$300,000

Total Net Income Main Floor			$300,000
Less: Vacancy and Collection Loss	5.00%	$15,000	
Net Income Main Floor			$285,000

Ancillary NOI = Ancillary GLA x Market Rent
Ex: 10,000 sq.ft x $30.00 = $300,000

Vacancy Loss = Ancillary NOI x Vacancy Rate
Ex: $300,000 x 5.00% = $15,000

Effective Gross Income = Ancillary NOI - Vacancy Loss
Ex: $300,000 - $15,000 = $285,000

Upper Floor(s)	Business Name	Leased Size (sq.ft)	Rate ($ / sq.ft)	Total
Office	ABC Ltd.	4000	$ 25.00	$100,000
Retail			$ -	$0
Warehouse			$ -	$0
Parking			$ -	$0
Other			$ -	$0
	Total	4000		$100,000

Net Income Upper Floor(s)			$100,000
Less: Vacancy and Collection Loss	5.00%	$5,000	
Net Income Upper Floor(s)			$95,000

Basement Floor	Business Name	Leased Size (sq.ft)	Rate ($ / sq.ft)	Total
Office			$ -	$0
Retail			$ -	$0
Warehouse			$ -	$0
Parking			$ -	$0
Other	ABC Ltd.	500	$ 10.00	$5,000
	Total	500		$5,000

Net Income Basement Floor			$5,000
Less: Vacancy and Collection Loss	5.00%	$250	
Net Income Basement Floor			$4,750
Total Net Income			$384,750
Less: Structural Allowance	2.00%	$7,695	
Net Operating Income			$377,055
Capitalization Rate	9.0%		
Ancillary Value		**$4,189,500**	

Total Net Income for Main Floor, Upper Floor, and Basement Floor.

Structural Allowance = Total Net Income x Structural Allowance %

Hotel's Capitalization Rate

Estimated Ancillary Market Value

Adjustments

Additional Building is the assessed value added for other buildings situated on the subject site. The method of valuation of an additional building will depend on the nature and function of the building.

Associated Lots is a reduction to a primary improved property based upon a separate but related associated parcel(s). This adjustment is applied when all, or part, of the land from the associated parcel(s) is required to satisfy the operation of the primary property.

Buildings Under Construction are improvements that are not complete as of the condition date. The adjustment is based on the cost rates from the *Marshall & Swift* manual, for the portion completed (also called percent complete).

Excess Land on an improved site is the land not needed to serve or support the existing improvement. It is also the portion of the parcel not needed to accommodate the site's primary highest and best use. Excess land may be separated from the larger parcel (subdivided) and have its own highest and best use, or it may allow for future expansion of the existing or anticipated improvement. Excess land value is derived from assessed commercial land values. Please refer to the *2018 Commercial Land Methodology Guide.*

Service Station Equipment (SSE) is the improved value of the service station equipment, including pumps, underground tanks, canopy structures, car wash structures and equipment. The cost value is based on the *Marshall & Swift* manual.

Surplus Land is the land not necessary to support the highest and best use of the existing improvement but, because of physical limitations, building placement, or neighbourhood norms, cannot be sold off separately. Surplus land may or may not contribute positively to value and may or may not accommodate future expansion of an existing or anticipated improvement.

Other Definitions

Actual zoning is set by the Edmonton Zoning Bylaw 12800 and regulates the development of a parcel.

Effective zoning is applied to reflect the current use and development of a parcel. The effective zoning may differ the actual zoning when current use differs from that which is permitted by the actual zoning as updated by Edmonton Zoning Bylaw 12800 (ie. legal non-conforming use).

Gross Building Area (GBA) is the total floor area of a building, including below-grade space but excluding unenclosed areas, measured from the exterior of the walls. All enclosed floors of the building including basements, mechanical equipment floors, penthouses, and the like are included in the measurement. Parking spaces and parking garages are excluded.

Gross Leasable Area (GLA) is the total area designed for the occupancy and exclusive use of the tenants, including basements and mezzanines; measured from the centre of joint partitioning to the outside wall surface.

Site Coverage is the relationship, expressed as a ratio, between the total footprint area of the improvement(s) and the amount of land associated with it. Site coverage is used to determine if excess or surplus land exists.

Provincial Quality Standards

The assessment models, the process utilized, and the results are submitted annually to the Assessment Services Branch of the Department of Municipal Affairs for audit purposes. This audit determines the accuracy of our predictions relative to the marketplace, and is a direct reflection on the accuracy of our models. The results indicated that the assessments meet Provincial Quality Standards as set out in *MRAT*.

References

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Revision History

Jan 22, 2018 - Revised:

- Assessment Detail Report - pg 16
- Adjustments - pg 21