2023 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

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Scope

This guide explains how Hotel & Motel properties are valued for assessment purposes. The guide is intended as a tool and complements the assessor's judgment in the valuation process. **Valuation Date** refers to the legislated date of July 1, 2022.

Introduction

Property assessments in the City of Edmonton are prepared in accordance with the requirements of the Municipal Government Act, R.S.A. 2000, c. M-26, (hereinafter "MGA") and the *Matters Relating to Assessment and Taxation Regulation, 2018*, Alta Reg 203/17, (hereinafter "MRAT"). The *MRAT* 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 MRAT regulation.

Property assessments represent:

- an estimate of the value;
- of the fee simple estate in the property;
- as the property existed on December 31, 2022;
- reflecting typical market conditions;
- as if the property had been sold on July 1, 2022;
- on the open market;
- from a willing seller to a willing buyer.

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

The legislation requires the City of Edmonton to assess the Fee Simple Estate.

> "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*

Both *market value* and *property,* along with additional terms are defined in the *MGA* and *MRAT* :

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 properties
- 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, this includes: rights to be valued, effective date of valuation, and any limiting conditions.
Data Collection	Mass appraisal requires a 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.

s31	(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	Information prescribed … does not include coefficients ***MRAT****, s.33(3)*

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

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, waterparks, golf courses, gaming & casino, ski slopes, or scenic areas. Resort 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 guest room operations only. The hotel often has food and beverage that is operated by a third-party from the hotel's operations, and therefore does not report a Food and Beverage Departmental Revenues on their financial statements. These hotels are often economy-type hotels with very few of the other services and amenities offered by Full-Service hotels.

Beverage Hotels are typically facilities with less than 80 guest rooms. The majority of their business revenues are derived from the Food and Beverage operating department.

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

Approaches to Value

The approaches to determine market value are the Direct Comparison, Income, and Cost Approaches.

Direct Comparison 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.

Income Approach

For this property type with two years of operation (24 months), the assessment is determined using the Income Approach. The Income Approach best reflects the typical actions of buyers and sellers when purchasing income-producing properties.

The City of Edmonton requests financial information from owners during the annual Request for Information (**RFI**) process. Annually, property owners are required to provide the following via the RFI process:

- A completed **Hotel Motel Survey** that asks for specific information about the property's profile and operations such as *Occupancy Rates, Average Daily Room Rates, FF&E (Furniture, Fixtures, and Equipment), Capital Expenditures, Reserve for Replacement*, and additional information pertaining to a major renovation(s).
- Most recent three years of accountant-prepared **Financial Statements for the period ending on June 30th** that includes the **Income Statements, Schedules of Income and Expenses** and **Notes**.

- A completed **Commercial Tenant Rent Roll** that asks for information on third-party leases that are held within the property, as applicable.

For the 2023 assessment, the CRA administered COVID-19 wage and rent subsidies to temporarily support wage and rent expenses for certain businesses, charities, and non-profits in Canada between March 15, 2020, and May 7, 2022. As of November 4, 2022, you can no longer apply for these subsidies.

- A completed **COVID Income Addendum** requesting information on abatements, deferrals, and payments was sent to property owners. In addition, the COVID Income Addendum also requested information on abandoned, breached, or amended leases.
- A completed **Canada Emergency Wage Subsidy (CEWS) Addendum** that asks for iWage subsidy for eligible employers
- A completed **Canada Emergency Rent Subsidy (CERS) Addendum** that asks for information on Rent subsidy for eligible businesses, charities, and non-profits
- A completed **Tourism and Hospitality Recovery Program (THRP) Addendum** that asks for information on wage and rent support for the tourism or hospitality sector or, through the Local Lockdown Program, those affected by a qualifying full or partial public health restriction
- A completed **Hardest-Hit Business Recovery Program (HHBRP) Addendum** that asks for information on wage and rent support for the tourism or hospitality sector or, through the Local Lockdown Program, those affected by a qualifying full or partial public health restriction
- A completed **Canada Recovery Hiring Program (CRHP) Addendum** that asks for information on Wage subsidy for increasing wages and new hires

Source: https://www.canada.ca/en/revenue-agency/services/wage-rent-subsidies.html

Sales information is received from the Land Titles Office. Sales are validated. Validation may include site inspections, interviews with involved parties, a review of land title documents, corporate searches, third party information, and sales validation questionnaires. The resulting validated sales are used to develop capitalization rates to use in the income approach. ***Sale price reflects the condition of a property on the sale date and may not be equal to the assessed value.***

For the 2023 valuation of Hotel and Motel properties, sales occurring from **July 1st, 2017 to June 30th, 2022** were analyzed.

Cost Approach

For newly-constructed hotels with less than 24-months of operation, the assessment will be determined using the Cost Approach to value. For more information on the Cost Approach valuation, please see the **City's 2023 Cost Approach Methodology Guide.**

Hotel Motel Valuation

Hotels/Motels 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 2023.

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

Hotel/Motel Revenue

Hotel/Motel Revenue is the sum of the amounts for all four categories of operating revenues with the exception of Limited Service Hotel and Motel stratified properties as these properties do not report a Food & Beverage Departmental Revenues on their financials.

Operating Revenues

Room: Primary source of revenue from the rental of rooms and suites to guests. 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).

- For a newly-Constructed Hotel with only one full reporting period, the Room Revenue will be adjusted using a Typical Occupancy Study Ratio (**Occ %**) and the subject hotel's Average Daily Room Rate (**ADR**). If no ADR is reported via the RFI process, the City will apply the ADR from the Typical Average Daily Room Study Rate

Food & Beverage: Restaurant venues that are solely owned and operated by the property owner (the hotel or motel corporation or a subsidiary of the parent corporation). Revenues of all sales and services of food & beverages from guests and patrons are reported on the Hotel's Food & Beverage Operating Departmental Income Statements. Examples may be *Venue Food Revenue, In-Room Dining Food Revenue, Banquet, Conference, Catering, Mini-Bar Food Revenue*, and *Other Food Revenue*.

Other Operated Departments: Other departments(s) owned and operated by the property owner in generating revenue for profit and have direct operating expenses. Examples of Other Operating Department Revenue items would be *Guest Laundry Service, Business Centre, Guest Shop, Front Shop*, *Valet & Lease Parking Revenues*, and *Rent & Lease Revenue***.** A rental or concession agreement between the hotel and the retail tenant, is to offer hotel guest services and merchandise that are not provided by the operating department.

- **Hotel Interior Retail Space(s)** is space that can only be accessed through the hotel lobby, does not benefit from exterior retail exposure or signage, and is mainly used to provide additional hotel guest services and amenities, i.e. gift shops, restaurants operated by a third party, etc. Hotel Interior Retail Space is not considered to be ancillary space of the hotel. Any revenues and expenses generated from Hotel Interior Retail Space are included in the *Other Operated Department* (Hotel Pro-Forma).

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

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

Hotel Stratification	Room Revenue	Food & Beverage Revenue	Other 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 Hotels	Yes	Yes	Yes
Motel	Yes	No	Yes

Hotel/Motel Expenses

The expenses of a hotel/motel 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: Room expenses consist of two major categories: Labour Cost and Related & Other Expenses. Labour Costs include *Salaries, Wages, Service Charges, Contracted Labor*, and *Bonuses*. Room Related & Other Expenses include *Room Cleaning Supplies, Commissions & Fees, Room Laundry,* and *Linen*.

Food & Beverage: Restaurant venues that are solely owned and operated by the property owner (the hotel or motel corporation or a subsidiary of the parent corporation). Expenses from all sales of food and beverages and services from guests and patrons are reported on the Hotel's Food & Beverage Operating Departmental Income Statements. Food & Beverage Expenses consist of two major categories: Cost of Food & Beverage Sales and Related & Other Expenses. Cost of Food & Beverage Sales includes the cost of food served in all segments of food revenues. Related & Other Expenses include the costs associated with sale and service items such as *Labour Cost, Banquet Expenses, Flatware, Glassware, Linen, Kitchen Cleaning & Supplies*, and *Uniforms*.

Other Operated Departments: Other Departmental Expenses are the associated cost of sales and/or services to the corresponding Other Operating Department Revenues. Items may include *Labour Cost, Cost of Goods Sold, Valet & Lease Parking Expenses, Rent & Lease Expenses,* and *Miscellaneous Expenses*.

- **Hotel Interior Retail Space(s)** is space that can only be accessed through the hotel lobby, does not benefit from exterior retail exposure or signage, and is mainly used to provide additional hotel guest services and amenities, i.e. gift Shops, restaurants operated by a 3rd party, etc. Hotel Interior Retail Space is not considered to be ancillary space of the hotel. Any revenues and expenses generated from Hotel interior Retail Space are included in the *Other Operated Department* (Hotel Pro-Forma).

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.

Administrative & General: Administration & General expenses consist of two major categories: Salaries & Wages and Related Expenses. Salaries & Wages expenses associated with this department include *General Manager Salary, Employee Benefits* and *Bonuses*. Related Expenses include *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 & Telecommunication Systems: Items classified under this expense include the property'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 systems for the property (i.e VoIP, T-1).

Sales & Marketing: Sales & Marketing expenses consist of two major categories: Salaries & Wages and Related Expenses. Salaries & Wages expenses associated with this department include *Salaries, Wages, Employee Benefits*, *Bonuses* and *Contracted Work*. Related Expenses include 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*.

Franchise Fee: Franchise Fee is the contractual agreement cost between a hotel/motel company (a national or regional chain) and an independent 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. Related Fees may include *Base Royalty Fee*, *Incentive Royalty Fee*, *Program Fee,* and/or *Franchise Marketing Fee*.

Property Operations & Maintenance: Property Operations and Maintenance expenses consist of two major categories: Salaries & Wages and Related Expenses. Salaries & Wages expenses associated with this department include *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: Utilities Expense items include Electricity, *Gas, Oil, Steam, Other Fuels, Contracted Services* and *Water/Sewer.* Cost expenses to this account would include the associated fee items such as T*axes, 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 property owner (Investor). The Operator assumes complete responsibility for managing the property.

Fixed Expenses

This category includes fixed expenses that do not change with an increase or decrease in the amount of goods or services produced or sales volume, income and expenses that are not related to the property's core operation.

Rent: Rent Expenses are the costs associated with rent and leases of property and/ or equipment not specific to a departmental function or event (i.e Banquet hall sound and equipment).

Property Insurance: General insurance costs that include 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: Taxes specifically for the hotel/motel portion assessed against real property by a government or public agency. The City of Edmonton retrieves the most recent three years of property tax amounts from the Assessment and Taxation system when ascribing the Property Tax expense amount for the hotel/motel portion to be included on the 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 principal 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** – Following jurisprudence in Alberta, video lottery terminals (VLTs) and their incomes are not assessable for property taxes. However, the space occupied by VLTs is assessable and will be assessed following the Alberta Assessors Association Valuation Guide Hotel / Motel.

- **Non-Operating Income:** Is the portion of a corporation's income that is derived from facilities activities not related to the property's operation. Related items may include *Cost Recovery Income, Interest Income,* and/or *Other Income*.

- **Non-Operating Rent/Lease:** Rent Expenses are the costs associated with rent and leases of property and/ or equipment not specific to the hotel's departmental function or event (i.e Owner's Personal Lease Vehicle Expense).

- **Other Intangible:** Is the portion of the expenses that are derived from activities not related to the property's operation. Related items may include *Capital Gains or Losses on Fixed Assets, Owner Expenses,* and/or *Unrealized Foreign Exchange Gains or Losses.*

- **Expenses not required to maintain the property income** – Certain expenses may not be included because these are expenses not related to the real estate component of the property or operations. 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 also 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 property.

Hotel and motels typically operate 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.

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 the hotel/motel's normal operations.

The City of Edmonton uses a 33%-33%-33% to equally weigh the revenue and expenses from the financial statements over a period of <u>three years prior</u> to the valuation date as of July 1st, 2022 .

Example Scenario: City of Edmonton requested the property's financial reporting period ending June 30th, 2022.

33% Income Statement reporting period: July 1, 2019 to June 30th, 2020	**33%** Income Statement reporting period: July 1, 2020 to June 30th, 2021	**33%** Income Statement reporting period: July 1,2021 to June 30th, 2022

If a property did not submit complete or usable financial statements during the Request for Information (RFI) period, a projected revenue is ascribed based on the City of Edmonton's **Occupancy %** and **Average Daily Room Rate (ADR)** Study from returned RFI's of similar stratified hotel and motels. In other cases, where a hotel or motel is recently constructed, the assessment will be completed using the Cost Approach to value. For more information on the cost approach valuation, please see the **City's 2023 Cost Approach Methodology Guide.**

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/motel 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.

- *Example:* A newly-Constructed Hotel with only one full reporting period, the Room Revenue will be adjusted using a Typical Occupancy Study Ratio and the subject property's ADR. If no ADR is reported via the RFI, the City will apply the ADR from the Typical Average Daily Room Study Rate. As well, for Room Expenses, the Typical Room Expenses Study Ratio will be applied to derive the Operating Departmental Room Expenses.

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 the ratio falls within -10%/+10%, **Actual ratio** is used.
Food & Beverage	45.0%	51.0%	49.5%	40.5 %	49.5 %	If the 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 the 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 Operated Departments		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

Furniture, Fixtures, and Equipment (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 Components

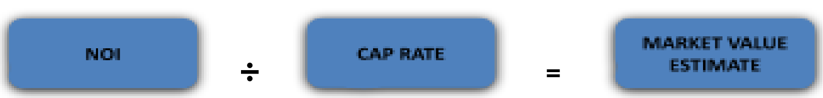
This category represents the goodwill of the business, and is a percentage of the '*Net Operating Income Before Fixed Charges*' on the Assessment Proforma: **1.5%** allowance for Full Service and Resort hotels; **1.0%** allowance for Limited Hotels, Beverage Hotels and Motels.

The chart below summarizes the rates applied for **Intangibles & Business Components**, and **Furniture**, **Fixtures, & Equipment** for each Stratification.

Stratification	Intangibles & Business Component	Furniture Fixtures & Equipment
Resort	1.5%	15%
Full Service - Downtown	1.5%	15%
Full Service - Suburban	1.5%	15%
Limited Service	1.0%	10%
Beverage Hotels	1.0%	10%
Motels	1.0%	10%

Capitalization Rate

The Capitalization Rate (Cap 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. The capitalization rate is applied based on Stratification. The variables that affect the Cap Rate for Hotels are the hotel stratification and the age of the hotel.



Sample Assessment Detail Report

2023 Assessment Detail Report

Hotel Motel Valuation Summary

Account:	123456789	Address:	123456	Identifies Hotel/Motel **Stratification** and **Property Profile**
Building:	City of Edmonton Hotels and Motels	Actual Zoning:	CHY	
Stratification	Downtown Full-Service	Effective Zoning:	CHY	
Rooms:	123	Valuation Date:	July 1, 2022	
Effective Year Built:	1234			

Operating Revenues and Expenses: Stablization of the three preceding reporting periods:
July 1st,2019 - June 30th,2020
July 1st,2020 - June 30th,2021
July 1st,2021 - June 30th,2022

Operating Revenue	**Total**	**Per Room**	**%**	
Rooms	$4,800,000	$39,024	63.6%	
Food & Beverage	$2,400,000	$19,512	31.8%	
Other Operated Departments	$260,000	$2,114	3.4%	
Miscellaneous	$85,000	$691	1.1%	
Total Operating Revenues	**$7,545,000**	**$61,341**	**100.0%**	**Total Operating Revenues** = Room Revenues + Food & Beverage Revenues + Other Operated Department Revenues + Miscellaneous Revenues
Departmental Operating Expenses				
Rooms	$1,824,000	$14,829	38.0%	Stablized Room Expenses divided by Room Revnues
Food & Beverage	$1,632,000	$13,268	68.0%	Stablized Food & Beverage Expenses divided by Food & Beverage Revnues
Other Operated Departments	$3,900	$32	1.5%	Stablized Operated Department Expenses divided by Total Operating Revnues
Total Operating Departmental Expenses	**$3,459,900**	**$28,129**	**45.9%**	**Total Operating Expenses** = Room Expenses + Food & Beverages Expenses + Other Operated Expenses
Total Departmental Profit	**$4,085,100**	**$33,212**	**54.1%**	**Total Department Profit = Total Operating Revenues - Total Operating Expenses**
Undistributed Operating Expenses				
Administrative & General	$603,600	$4,907	8.0%	Stablized Administrative & General divided by Total Operating Revenues
Information & Telecommunications Systems	$37,725	$307	0.5%	Stablized Information & Telecommunication Systems divided by Total Operating Revenues
Sales & Marketing	$286,710	$2,331	3.8%	Stablized Sales & Marketing divided by Total Operating Revenues
Franchise Fee	$264,075	$2,147	3.5%	Stablized Franchise Fee divided by Total Operating Revenues
Property Operations & Maintenance	$286,710	$2,331	3.8%	Stablized Property Operation & Maintenance divided by Total Operating Revenues
Utilities	$437,610	$3,558	5.8%	Stablized Utilities divided by Total Operating Revenues
Total Undistributed Operating Expenses	**$1,916,430**	**$15,581**	**25.40%**	**Total Undistributed Operating Expenses** = Administraive & General + Information & Technology System + Sales & Marketing + Franchise Fee + Property Operation & Maintenance + Utilities
Gross Operating Profit	**$2,168,670**	**$17,631**	**28.7%**	**Gross Operating Profit** = Total Department Profit - Total Undistributed Operating Expense
Management Fee	$226,350	$1,840	3.0%	Stablized Management Fee divided by Total Operating Revenues
Income Before Fixed Expenses	**$1,942,320**	**$15,791**	**25.7%**	**Income Before Fixed Expenses = Gross Operating Profit** - Management Fee
Fixed Expenses				
Property Insurance	$67,905	$552	0.9%	Stablized Property Insurance divided by Total Operating Revenues
Property Taxes	$165,990	$1,350	2.2%	Stablized Property Taxes divided by Total Operating Revenues
Total Fixed Expenses	$233,895	$1,902	3.1%	**Total Fixed Expenses** = Property Insurance + Property Taxes
Earnings Before Interest, Taxes, Depreciation, and Amortization	**$1,708,425**	**$13,890**	**22.6%**	**Earnings Before Interest, Taxes, Depreciation, and Amortization** = Income Before Fixed Expenses - Total Fixed Expenses
Less % of Income Before Fixed Expenses: Furniture, Fixtures, & Equipment	$256,264	$2,083	15.0%	**FF & E = Income Before Fixed Expenses** x 15%
Less % of Income Before Fixed Expenses: Intangibles & Business Component	$25,626	$208	1.5%	**Intangibles & Business Component = Income Before Fixed Expenses** x 1.5%

Assessable Income to Real Estate	**$1,426,535**	**Assessable Income to Real Estate = Earnings Before Interest, Taxes, Depreciation and Amortization** - FF&E - Intangibles & Business Component
Capitalization Rate	**9.00%**	
2023 Hotel Market Value Estimate	**$15,850,388**	**2023 Hotel Market Value Estimate = Assessable Income to Real Estate** divided by **Capitalization Rate**
Ancillary Value	**$1,500,000**	*Refer Ancillary Section of 2023 Hotel Motel Methodology Guide*
Excess Land	**$250,000**	*Refer Ancillary Section of 2023 Hotel Motel Methodology Guide*
2023 Market Value Estimate (Rounded)	**$17,600,000**	**2023 Market Value Estimate = Hotel Market Value Estimate** + Ancillary Value + Excess Land (if applicable)

Other Value Adjustments

Additional Building Additional Building is the assessed value added for other buildings situated on the subject parcel.

Hotel Ancillary Space is the space that is unique to the hotel/motel operation and it is valued separately from the hotel valuation. The total value of the ancillary space is added to the hotel assessment to arrive at a final value for the entire hotel property. **Refer to *Hotel Ancillary Space Valuation*** .

Associated Lot 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 permitted uses of the primary property. The associated parcel(s) must be owned by the same individual/corporation as the primary improved property or have a lease in place with the primary improved property. The Edmonton Zoning Bylaw No. 12800 in effect on July 1, 2020, prior to Open Option parking coming into effect, outlined the requirements to satisfy the operations of the primary property. Parkades do not qualify as associated lots. For Free-Standing Parkade properties, refer to the *2023 Free-Standing Parkade Assessment Methodology*.

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 parcel is the area of land not needed to meet the legal requirements for the existing improvement. It is also the area of the parcel not needed to accommodate the parcel'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 2023 Commercial Land Assessment Methodology.

> *Parking requirements for calculating the amount of excess land for Downtown and Suburban Office properties were determined using the Edmonton Zoning Bylaw No. 12800 in effect on July 1, 2020, prior to Open Option parking coming into effect*.

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 neighborhood 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. *For the 2023 assessment, a 50% discount to the excess land rate was applied.*

> *Parking requirements for calculating the amount of surplus land for Downtown and Suburban Office properties were determined using the Edmonton Zoning Bylaw No. 12800 in effect on July 1, 2020, prior to Open Option parking coming into effect.*

Land Thresholding is when the land value plus $500 improvement value is greater than the income approach value and as such the land value is used in the assessment. It is based on the principle of highest and best use as Vacant. For hotels, land thresholding was used where applicable for the 2023 Assessment. For information on the land valuation, please see the **City's 2023 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*.*

Land Lease is a lease for a specific portion of land subject to specified terms. On the *Retail and Retail Plaza Assessment Detail Report*, land leases are used exclusively for gas stations. The improvements are valued based on their depreciated cost to construct under Service Station Equipment (SSE).

Hotel Motel Ancillary Space Valuation

The Hotel Ancillary Space valuation is only applicable to hotel/motel properties where the majority of space of the building is primarily used for hotel operations. The total leasable area of the Ancillary Space does not exceed 40% of the total building area.

Hotel Ancillary Pro Forma is applied to a separate portion(s) of a hotel/motel where there are separate enclosed commercial spaces, usually located on the Main, with direct exterior access and signage. They can either operate independently or to support the hotel operations, but cannot be subdivided from the hotel. They experience similar access and exposure to retail properties; the area is valued separately from the hotel.

- **Retail** spaces are leased to facilitate commercial transactions. Size and location of the hotel affect the rental rate, vacancy allowance and collection loss applied to retail spaces in hotels. The location of the hotel also determines which valuation group's income model to apply. Rental rates, vacancy allowance and collection loss will be derived in accordance with the corresponding valuation model.
  Please refer to **2023 *Assessment Methodology - Retail and Retail Plaza*** or ***2023 Assessment Methodology - Neighbourhood, Power & Box Retail*** for space type, size and location definitions.
- **Tavern/Lounge** spaces of Beverage hotels are assessed similar to CRU-Restaurant which are food and liquor serving establishments that contain dedicated food preparation, kitchen, and sitting areas. Rental rates, vacancy allowance and collection loss for tavern/lounge spaces will be derived in accordance with the *Retail and Retail Plaza* valuation model.
  Please refer to **2023 *Assessment Methodology - Retail and Retail Plaza*** for space type, size and location definitions.

The capitalization rate applied to the hotel ancillary spaces will be consistent with that applied to the entirety of the hotel building. The Ancillary Pro Forma value is added to the hotel assessment to arrive at a final value for the entire hotel property.

Sample Hotel Ancillary Pro Forma

Ancillary Detail Report

Roll:	123456789	Building:	City of Edmonton Hotels and Motels
Stratificaiton:	Downtown Full-Service	Address:	123456
Actual Zoning:	CHY	Rooms:	123
Effective Zoning:	CHY	Valuation Date:	July 1, 2022

Identifies Hotel/Motel Stratification and Property Profile

Space Type	Business Name	Leased Size (sq.ft)	Leased Size @ 95% (sq.ft)	2023 Rate ($ / sq.ft)	Total
Retail	ABC Ltd.	5,000	4,750	$ 50.00	$237,500
Retail	DEF Ltd.	4,000	3,800	$ 60.00	$228,000
Retail		0	0	$ -	$0
Retail		0	0	$ -	$0
Retail		0	0	$ -	$0

Ancillary Potential Gross Income = Ancillary GLA x Market Rent
Ex: 4,750 sq.ft x $50.00 = $237,500
Ex: 3,800 sq.ft x $60.00 = $228,000

Potential Gross Income			$465,500
Less: Vacancy and Collection Loss	5.00%	$23,275	
Effective Gross Income			$442,225
Less: Structural Allowance	2.00%	$8,845	
Net Income			$433,381
Capitalization Rate			**9.0%**
Ancillary Estimate Value		**$**	**4,815,339**

Vacancy and Collection Loss = Potential Gross Income x Vacancy and Collection Loss Rate

Structural Allowance = Effective Gross Income x Structural Allowance Rate

Ancillary Estimate Value = Net Income divided by Capitalization Rate

Additional Commercial Building

Additional Commercial building(s) any additional stand-alone commercial building where the use of the Stand-Alone Building is completely independent of the use of the hotel building is valued based upon the relevant valuation model.

- Please refer to **2023 *Assessment Methodology - Retail and Retail Plaza*** for more Retail valuation details.
- Please refer to ***2023 Assessment Methodology - Downtown/Suburban Office*** for more Office valuation details.
- Please refer to ***2023 Assessment Methodology - Neighbourhood, Power & Box Retail*** for more Shopping Centre valuation details.

Other Commercial 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 Rent, generally defined, is the rental rate net of financial concessions such as periods of free rent during the lease term.

Lease types include *Gross Leases, Modified Gross Leases, Single Net Leases, Double Net Leases,* and *Triple Net Leases*. 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 or 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 Structural Repairs only
  - **New** is a new lease agreement of a tenant occupying a space that was vacant or occupied by a previous tenant, may include tenant expansion.
  - **Renewal** is when a lease expires and the existing tenant signs a new lease term.
  - **Step-Up** is a scheduled change to the rental rate within the term of the existing lease.

Tenant Improvement Allowances is a dollar amount or allowance provided to the tenant by the landlord for the renovation or completion of the interior finish, which may or may not equal the full cost of construction or remodeling.

The City of Edmonton does not adjust for tenant improvement allowances. As the City is mandated through legislation to assess the *Fee Simple interest* of each property, it is inherent that the estimated market rent reflects fully finished space. When a tenant and landlord negotiate a base rental rate with a tenant improvement allowance as part of the rental agreement, they have agreed upon the rent that they believe the space can achieve as fully finished, not the rent it would achieve in its current state.

Tenant Inducements are incentives provided by landlords either to attract new tenants or retain existing tenants. Described below are the most common forms of tenant inducements:

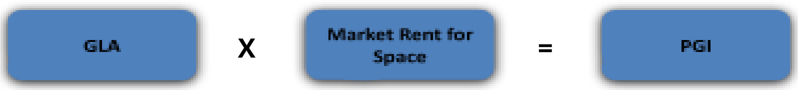
- *Common area expense* or *operating expense reimbursement* is a form of tenant inducement where operating expenses in excess of a predetermined base amount are reimbursed.
- *Relocation Allowance* is a credit offered by a landlord to cover relocation expenses incurred by tenants.
- A *buyout* is a termination of an existing lease whereby the landlord agrees to pay the remainder or terminate the original lease on behalf of the tenant.
- *Cash payments* are a signing bonus paid to tenants that enter into a new lease agreement.
- *Free rent or discounted rent* is an abatement of rent during some period of the lease term. Free rent is a reduction in the face rental rate, the amount appearing on the face of the lease, for a stated period of time. This adjustment is generally applied at the beginning of the lease term. For example, a lease is signed with free rent for the first three months of a five year lease.

Based on the information provided to the City of Edmonton through the RFI process, for 2023 valuation, there were no types of tenant inducements that were found to be typical in the marketplace for Hotel Motel ancillary spaces. Therefore, no adjustments were applied when determining typical market rent.

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 Assessment Detail Report.

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 the 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.***



Vacancy and Collection Loss Allowance is a deduction from the potential gross income for typical vacancy and collection losses, assuming typical market conditions and typical management. Vacancy losses are best described as an allowance for vacant space as of the valuation date. Collection losses are considered unpaid rents that the landlord is unlikely to recover. For the 2023 assessment, both a vacancy and collection loss study were developed. The results of these studies were then added together in order to form the vacancy and collection loss allowance. The raw data for these studies came from tenant rolls, the Income Addendum, and year-end financial statements. Deferrals were not considered as part of collection loss because these are unpaid contractual rents that were agreed to be paid at a future date. These allowances are usually expressed as a percentage of potential gross income.

Should a property demonstrate a history of higher than typical vacancy, the City may apply an adjusted stabilized vacancy and collection loss allowance (chronic vacancy). Chronic Vacancy is applied on a CRU or office basis. In order to qualify for chronic vacancy all of the following criteria must be met:

- 3 consecutive years of rent rolls immediately preceding the valuation date must be provided;
- All 3 years of rent rolls must show that the property has experienced a vacancy rate greater than the current typical vacancy allowance range - For example, if the typical vacancy allowance is 6% then each year's vacancy must be at least 10%;
- The rent rolls must be provided during the RFI process;
- The vacant space must have been actively marketed during the chronically vacant period;
- Storage space is not included in the vacancy allowance calculation;

If the preceding criteria is met, then the average of the 3 years will determine which stabilized vacancy and collection loss allowance is applied. The ranges and the corresponding stabilized vacancy and collection loss allowances are demonstrated in the chart below.

Actual Vacancy Range (over three years)	Stabilized Vacancy and Collection Loss Allowance
0% to <10%	**Apply typical allowance**
≥ 10% to <20%	**10%**
≥ 20% to < 30%	**15%**
≥ 30% to < 40%	**20%**
≥ 40% to < 50%	**25%**
≥ 50% to < 60%	**30%**
≥ 60% to < 80%	**35%**
≥ 80% to < 100%	**40%**

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

PGI - Vacancy Allowance = EGI

Vacancy Shortfall is an expense related to the cost of carrying vacant space. Though the space is vacant there are still costs associated with the space that the owner must pay, such as operating expenses, heating, security, property taxes, etc. Storage space is not included in the vacancy shortfall calculation.

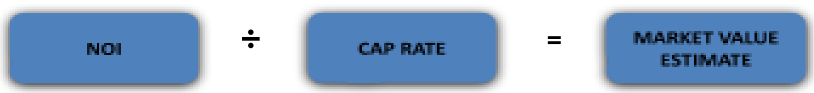
Net Operating Income (NOI) is the actual or anticipated (before income tax) net income from the operation of the property after deducting all expenses from the effective gross income but before debt servicing costs. The term is often abbreviated to net income and sometimes stated as net income before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

Vacant Space is empty and or unoccupied leasable space. A vacancy percentage should not be considered to be the same as a vacancy allowance, which is what a prudent investor or owner would budget for in their income stream on an ongoing basis.

Overall Capitalization Rate (Cap Rate) reflects 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.



Other Definitions

Actual Zoning is set by the Edmonton Zoning Bylaw No. 12800 and regulates the use and development of a parcel. Edmonton Zoning Bylaw No. 12800 is available online at *Edmonton.ca*.

Effective Year Built is the chronological age of a property adjusted to reflect an addition or significant renovation that extends the improvement's remaining economic life. The components that when replaced or extensively renovated affect the remaining economic life of a property include the roof, the building envelope (windows and doors, exterior siding, walls including insulation and vapor barrier, and other structural components), the foundation, and mechanical components (electrical, plumbing and HVAC). Completed additions to existing improvements will alter the effective age of a property.

Effective zoning is applied to reflect the current use and development of a parcel. The effective zoning may differ from 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.

Land Use Code defines the use of a property. The amount of a property subject to any specific Land Use will be expressed as a percentage (%). Land Uses may be used for administrative reasons and are not used in the valuation of Hotel & Motel Inventory.

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.

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