EXECUTIVE SUMMARY

Hotel/Motel

Appraisal Cycle Date – January 1, 2013 to December 31, 2016

Effective Date of Valuation – January 1, 2011

Date of Report – March 27, 2014

Model Summary

Group	Average Net Income per Room	Typical Occupancy Rate	Overall Capitalization Rate	Adjustment for FF&E
Hotel A	$17,900	71%	9.66%	10%
Hotel B	$10,900	62%	9.66%	10%
Hotel C	$14,700	69%	9.66%	10%
Motel A	$8,400	64%	9.66%	10%

IDENTIFICATION of MODEL AREA

The Hotel/Motel model is an income model that values all of the hotel and motel properties in Regina. Hotel and motel properties that also include separate office, retail and/or restaurant components have these components valued by the Office and Global Retail models. The Hotel/Motel model is a city-wide model in application.

Hotel and motel properties are classified and grouped according to generally accepted Accommodation Industry practices, as follow:

- Full Service Hotels – provide a wide variety of facilities and amenities including food and beverage service, recreational facilities and meeting rooms
- Limited Service Hotels – provide only some of the amenities found in full service properties
- Resort Hotels – provide special recreational facilities and are typically located in non-urban areas
- Suite Hotels – have separate (not necessarily physically divided) sleeping and living areas
- Extended-Stay Hotels – designed for longer-term stays; typically include kitchen and laundry facilities
- Motels – typically have limited amenities; typically cater to drive-by traffic
- Gallonage (or Tavern) Hotels – generate a significant portion of their revenue through beverage sales

These are generalized definitions. A hotel/motel property may not meet the exact definition described above, but is placed in the classification that best fits the individual property.

There are 27 hotels and motel properties located within the City of Regina.

Zoning Descriptions

The Hotel/Motel model is a city-wide model in application. The majority of the properties valued by this model are located in East Regina along the Victoria Avenue corridor (9), in the downtown central business district of Regina (8), and in South Regina along Albert Street (4). The remainder are scattered throughout the middle sections of Victoria Avenue and Albert Street (5) and one recently built property in Southwest Regina in the Harbour Landing Area.

All of these properties are located on commercially-zoned land with various zoning classifications depending on location. The majority of the downtown core properties are zoned D (Downtown) whereas all other properties are zoned MAC (Major Arterial Commercial), except for a few properties zoned HC (Highway Commercial) along the East Victoria corridor.

APPRAISAL PROCESS

Highest and Best Use Analysis

Saskatchewan assessment legislation, through its municipal Acts and Regulations, require the Assessor to value all improvements that exist, whether or not the improvement is complete or capable of being used for its intended purpose. In the vast majority of instances, the present improved use of a property represents its highest and best use and the Assessor will value it according to its present use. If market information indicates that such is not the case for a particular property, then that property's highest and best use is changed and the property is valued accordingly.

For a detailed discussion on Highest and Best Use, please see the Introduction document.

Valuation Approach

All three approaches to value (cost, sales comparison and income) can be used to value hotel/motel properties.

The Income Approach to Value is warranted and preferred when sufficient income, expense and sales data is available for analysis. The Income Approach is based on the premise that the value of an income-producing property is related to its potential income-producing capability.

Based on the availability, quantity and quality of market data regarding hotel/motel net rents and sales to produce overall capitalization rates, the Income Approach to Value is used in the Hotel/Motel model to value these properties for assessment purposes.

SCOPE of DATA and ANALYSIS

Hotel/Motel Model

Net Income Model Development

Prior to 2012, the City Assessor requested copies of rent rolls for the base date and prior three years for all non-residential properties. The data for the development of the mass appraisal net rent model came from these returned rent rolls.

The financial statements of 22 hotel/motel properties were analyzed. The net income model is an additive model that predicts net incomes based on the number of hotel/motel rooms and the typical net rent per room.

The development of typical hotel/motel net incomes is a three-step process:

1. *Develop net incomes from individual hotel/motel properties*
2. *Develop potential net income per room from individual hotel/motel properties*
3. *Develop typical net incomes per room for different hotel/motel property groups*

The first step in the development of hotel/motel net incomes is to review the revenue and expense statements for each individual hotel/motel property that provided information. The net income for each individual property is derived through the following formula:

> *Operating Revenue – Departmental Expenses – Undistributed Operating Expenses – Fixed Expenses = Net Income*

The second step is to develop the potential net income per room from the total net income for each individual property. This process considers the occupancy rate of the individual hotel/motel property and its number of rooms the potential income the individual property could earn if it was fully occupied, as follows:

> *Net Income ÷ Occupancy Rate ÷ Number of Rooms = Potential Net Income per Room*

The third and final step of developing typical hotel/motel net incomes is to analyse the various individual properties to determine if different typical net incomes and occupancy rates are applicable to different groups or classifications of hotel/motel properties. These typical figures will be required in the application of the net income model to the inventory of hotel/motel properties in the city. The following hypothetical example illustrates this process of developing typical figures:

	Hotel X	Hotel Y	Hotel Z	Group Average
Actual Potential Net Income per Room	$13,000	$15,000	$17,000	$15,000
Actual Occupancy Rate	70%	60%	65%	65%

Rent Model Application

The second step in the valuation process is to apply the typical net rents and occupancy rates against the hotel/motel inventory in the city to arrive at typical total net incomes for all hotel/motel properties. Please see the following hypothetical example:

	Hotel X	Hotel Y	Hotel Z
Typical Potential Net Income per Room	$15,000	$15,000	$15,000
x Number of Rooms	100	85	96
= Potential Net Income	$1,500,000	$1,275,000	$1,440,000
x Typical Occupancy Rate	65%	65%	65%
= Effective Net Income	$975,000	$828,750	$936,000

Overall Capitalization Rates and Adjustments

Economic Capitalization Rates were estimated by dividing the predicted base date net operating income (generated from the net rent model) by adjusted sale prices. Sales used in this analysis occurred between January 1, 2008 and December 31, 2010. These sales were verified by mailing questionnaires to both vendors and purchasers.

Sales were adjusted for non-realty items and other factors when warranted. Sales were also adjusted to the base date of January 1, 2011. The indicated time adjustment was approximately 4.8% per month for the first 10 months (January 2008 to October 2008) and no further adjustment for sales occurring after October 2008.

The reconciliation process for determining economic capitalization rate strata primarily involved Multiple Regression Analysis, which was supported by a consultation process with individuals active in the Regina real estate market. Recognized published capitalization rate data were also reviewed.

There were no sales of hotel property within the municipal boundaries of the City of Regina during the sales period of January 1, 2008 through December 31, 2010, as follows:

The *Market Value Assessment in Saskatchewan Handbook (Handbook)* provides that, where hotel/motel sales information is not available, appropriate capitalization rates may also be determined through comparison with alternative real estate investment properties. The *Handbook* also states that, from an investment point of view, the more similar the characteristics of the associated income stream (the frequency of payment, its potential for growth, and the risks associated with the income), the more comparable the investment and the more comparable the capitalization rate.

When investors purchase an income-producing property they are buying an income stream and will value this income stream based on its inherent risks and returns. In determining what value to pay for a property's income stream, they will look to alternative (or competing) investments as potential substitute purchases based on the inherent risks and returns associated with these substitute investments.

The alternative real estate investment properties considered to exhibit the most similar risk and return characteristics as hotel/motel properties are the Global – Retail Multi-Storey properties built 1970-1999 indicating an overall capitalization rate of 9.66%.

The capitalization rate analysis involved 7 sales, detailed in the following table:

Account	Address	mm	yy	Adjusted Sale price	Predicted Income	Economic Cap Rate
10033861	510 E VICTORIA AVENUE	3	2008	$2,082,626	$226,900	10.89%
10037735	2275 ALBERT STREET	1	2008	$2,706,706	$214,952	7.94%
10037013	2146 ROBINSON STREET	9	2009	$399,992	$38,658	9.66%
10033544	806 VICTORIA AVENUE	9	2009	$517,489	$51,700	9.99%
10032014	1954 ANGUS STREET	5	2010	$319,993	$42,900	13.41%
10033861	510 E VICTORIA AVENUE	7	2010	$3,299,933	$226,900	6.88%
10060829	2216 LORNE STREET	9	2010	$599,988	$56,900	9.48%

Furniture, Fixtures and Equipment (FF&E) Adjustment

The data for the development of an appropriate deduction for FF&E was developed from returned rent rolls from existing hotel/motel properties, and specific requests for FF&E costs from newly constructed properties. These data were subsequently compared to other available sources.

Eight hotel/motel properties returned rent roll information indicating an average depreciated replacement cost for FF&E of 7%. Three newly constructed hotel/motel properties reported an average cost new for FF&E of 10.1% of total construction costs.

In addition, Hospitality Valuation Services (HVS) reported a typical reported deduction of 9% for FF&E. Finally, the one hotel sale in Regina in 2008 reported a deduction of approximately 2.5%.

Based on this evidence, a deduction of 10% is considered to be appropriate, based in large part on the reported costs of newly constructed hotel/motel properties in Regina.

Application of Capitalization Rate and FF&E Adjustment

The final step in the valuation process is to capitalize a property's net income to determine its total value (including FF&E), and then to deduct the FF&E component from the total value to arrive at a value for the property of just its real estate component. Continuing the hypothetical example used above yields the following:

	Hotel X	**Hotel Y**	**Hotel Z**
Effective Net Income	$975,000	$828,750	$936,000
÷ Capitalization Rate (10%)	10%	10%	10%
= Capitalized Value (including FF&E)	$9,750,000	$8,287,500	$9,360,000
– Deduction for FF&E (10%)	10%	10%	10%
= Assessed Value of Real Estate	$8,775,000	$7,458,750	$8,424,000

MODEL TESTING

In mass appraisal, the most effective means of evaluating the accuracy of appraisals is a ratio study. A ratio study compares the appraised values produced by the valuation models to arm's length sale transactions in the marketplace.

The legislated statistical requirement affecting the assessment of commercial properties in Saskatchewan is for the median ratio of a city-wide assessment-to-sales study to be within the range of 0.95 to 1.05.

The median assessment-to-sales ratio and Coefficient of Dispersion for this Retail – Global model is provided below:

Number of Sales	121
Median Assessment-to-Sales Ratio (ASR)	1.000
Coefficient of Dispersion (COD)	18.80%