Distinguishing Hotel Sales from Market Value for Property Tax Purposes

2011 Hospitality Law Conference

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Presenter

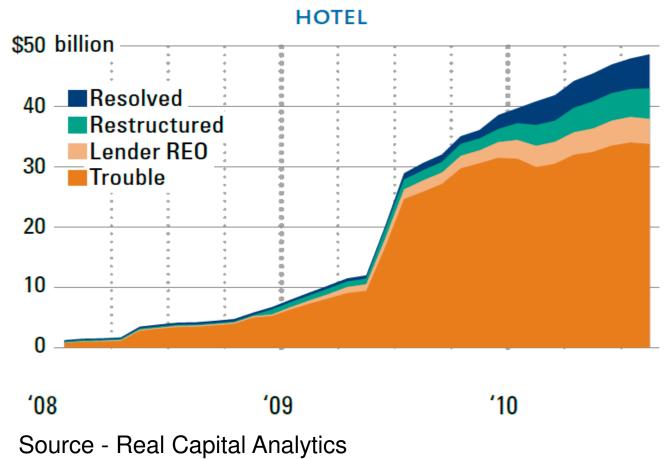


- Mark S. Hutcheson, Partner, Popp, Gray & Hutcheson, LLP
- Texas APTC Representative
- IPT CMI Designation Committee

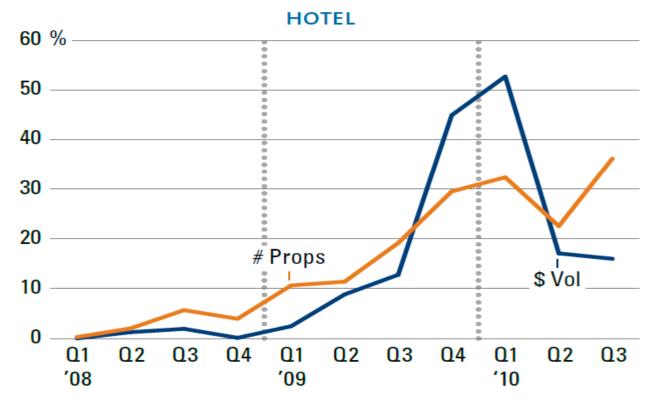
Market Overview

- Distressed Sales (peaked at 50% of Volume in 2010)
- Transaction Volume Coming Back
- Commercial Mortgage Maturities Will Shape Market over Next 5 Years

CUMULATIVE DISTRESS VOLUME



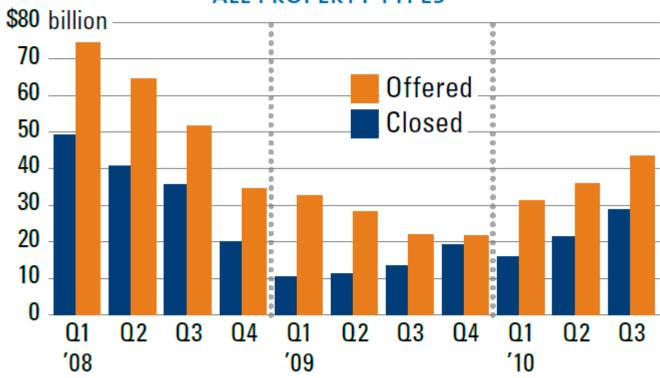
PERCENT OF SALES ASSOCIATED WITH DISTRESS



Source - Real Capital Analytics

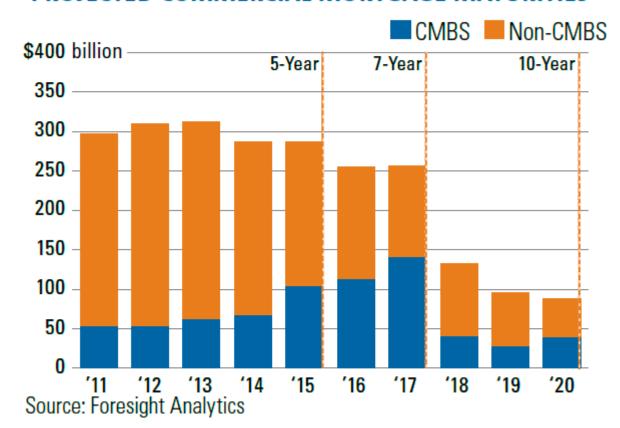
CLOSED VS OFFERED VOLUME

ALL PROPERTY TYPES



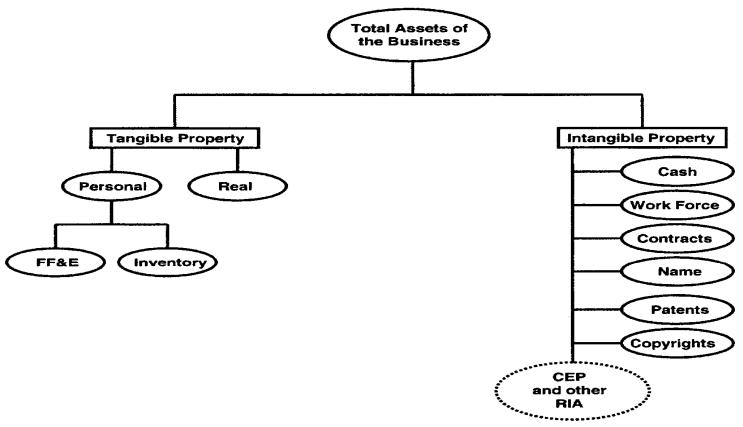
Source - Real Capital Analytics

PROJECTED COMMERCIAL MORTGAGE MATURITIES



What's in a Sale?

Components of a Going Concern or Business



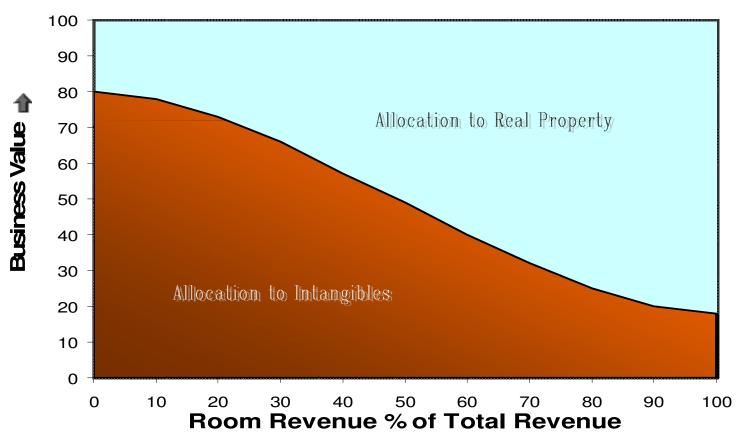


Allocating Intangibles Among Hotel Types

 Intangible Value Tends to Increase with Size and Complexity of Hotel Business

- Convention
- Historic Hotel
- Limited Service
- Economy/Budget

Business Value / Room Revenue Relationship







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Segregating Intangible Assets

- Income Approach
 - Forecast Income and Expense
 - Deduct Replacement Allowance
 - =Net Operating Income
 - Deduct Start-Up Costs
 - Deduct FFE (return of and on)
 - Deduct Brand Premium (STR Index)
 - Capitalize resulting NOI (loaded rate)

Tax Year: 2009 Type: Full Service Full Se	Rooms: 25	Marriott Plaza			Hotel:		Account 110042
Tax Year							
REVENUE Rooms S 9,116,205 \$ 36,320	Built: 197				Type:		
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Net Lease Approach

- Based on non-REIT hotel leases of real property
- Real property leases reviewed range from 7% to 13% of total revenue
- Cap at real estate rate or hotel rate?
- Settlements based on 15% of total revenue capped at 10% (or a 1.5 total revenue multiplier)

Room Revenue Multiplier

PKF		Room Rev Ratio (RRR)	NOI Margin	NOI/RRR	Loaded	Going Concern (RRM)		RRM @ 70%	RRM @ 80%
Over 200 Rooms	S	64.2%	26.90%	0.41900	10.87%	3.85	2.31	2.70	3.08
Over \$100 REVP	PAR	64.9%	27.80%	0.42835	10.87%	3.94	2.36	2.76	3.15
South Central		64.7%	27.30%	0.42195	10.87%	3.88	2.33	2.72	3.11
					Average =	3.89	2.34	2.72	3.11
					Median =	3.88	2.33	2.72	3.11

Assessor Methodologies

Income Approach (Direct Cap)

- deduct management and franchise fees, and reserves
 (3-5%)
- capitalize NOI (using Korpacz)
- determine % of NOI attributed to business value (20-35%)
- capitalize business value income by 2x applied cap
 rate
- cross checks value
 - RRM
 - Sales indicate 2.7RRM
 - \$1000 x RevPar x # of Rooms

Assessor Methodologies

- Income Approach (Direct Cap)
 - Utilize trailing 12 months income and expense
 - Add back the management and franchise fee
 - capitalize NOI+ (using Korpacz)
 - deduct a straight 20% off for business value

<u>Assessor Methodologies</u>

Income Approach

- use trailing 12 months income
- deduct management and franchise fees, and reserves
 (3-5%)
- loads tax rate
- capitalize NOI (using Korpacz)
- deduct start-up costs (up to \$5000/key) below line
- deduct personal property assessment

Assessor Methodologies

- Income Approach (GRRM)
 - Real Value = 2.50 x Room Revenue for Full Service
 - Real Value = 2.25 x Room Revenue for Limited Service

Questions

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