Valuation of the Real Estate & Intangibles

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HVS Property Tax Services

HVS Global Hospitality Services

- Recognized as the Leader in Hospitality valuation
- Wrote all six books for the Appraisal Institute on Hotel Valuation
- Provide cutting edge insights and solutions for Hospitality related challenges
- Sponsor and Developer of Hospitality conferences worldwide

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HVS Property Tax Services

- Thomas Dolan – Founder January 2010
- Spent 12+ years in Hotel Consulting and Valuation
- Spent 12+ Years in Hotel and restaurant Operations
- Appraised or consulted on over 1,000 hotel assignments
- Educator on hotel property tax to owners and assessor
- Act as an advocate for owners
- Successful in over 100 Hotel Appeals

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"Owner, Lender, Buyer and Seller" Approach to Valuing Real Estate

- We have yet to encounter underwriting that makes any of the controversial deductions of the BEV
- Very few buyers (or sellers) allocate to intangibles
  - Relates to Cost of capital
- Purchase and Sale agreements generally do not reflect intangibles

Superior/Inferior Management/Brand

- Adjustments for Management/Brand
  - RevPAR – Brand and Management
  - Expenses – Management
- Is the Brand part of the real estate? It can be
- Certainly Management is not except in the case of encumbered management
- Property Improvement Plans
- Example – Westin Hotel
  - Penetrated its competitive set at 150% revPAR
    - Partially due to location and physical
    - Primarily due to Management and not Brand

Value of the Management

- Management companies can add significant value through operational efficiencies
  - Location – several hotels in one area
  - Service – understanding the needs of the guest
- Management can make up for brand deficiencies
- Poor management can reduce overall value

Value of the Brand

- The Royalty fee is not the only franchise deduction that captures the value of the brand
- A marketing and advertising assessment
- Frequent Traveler Fees
- Reservation fees
- Other Miscellaneous fees

Cost of Brand for Full Service Hotels

	Percent of Total Rooms Revenue
Westin	17.16%
Sheraton	14.46%
Hilton	14.06%
Le Meridien	13.26%
Luxury Collection	13.00%
aloft	12.93%
Marriott	12.80%
Cambria Suites	12.71%
Four Points	12.65%
element	12.63%
Waldorf=Astoria Collection Named Hotels	12.17%
Waldorf=Astoria Collection Affiliated Hotels	12.13%
Doubletree Hotels	11.92%
Renaissance	11.66%
Hilton Garden Inn	11.66%
NYLO	11.39%
Hotel Indigo	11.33%
Staybridge Suites	11.13%
Wyndham / Wyndham Garden	11.13%
Embassy Suites	11.13%
XP by NYLO	10.85%
Courtyard	10.38%
Radisson	10.25%
Ascend	10.16%

Value of the Brand

- Physical cost to build a branded hotel exceeds that of an independent due to brand requirements
- Brands require more ongoing maintenance to the real property which is reflected in the P&L and the physical asset
- Branding requires greater levels of service which are reflected in the P&L
- Branding can be a detriment (negative value)
- Branding cannot make up for management deficiency
- As an asset ages, a brand has a tendency to prop up the value (revenue).

Return on and Return of Franchise

- The value of the franchise is recaptured through the cap rate, not through the income
- A lower cap rate is utilized as the replacement cost is greater
- New Theory – adjustments to cap rate to account for the intangible

Example

Brand A	
Revenue	$10,000,000
Franchise Fees	$1,000,000
Other Expenses	$8,000,000
NOI	$1,000,000
Cap Rate	0.08
value	$12,500,000

Brand B	
Revenue	$10,000,000
Franchise Fees	$1,000,000
Other Expenses	$8,100,000
NOI	$900,000
Cap Rate	0.08
value	$11,250,000

Independent	
Revenue	$10,000,000
Franchise Fees	$0
Other Expenses	$9,000,000
NOI	$1,000,000
Cap Rate	0.085
value	$11,764,706

Rushmore Approach
vs.
Business Enterprise Approach

Rushmore Approach	Business Enterprise Approach
Net Income Less:	**Net Income Less:**
Business Component	**Business Component**
Management Fee	Management Fee
Adjust for Residual Intangibles	Adjust for Residual Intangibles
	Business Start-up Costs
Personal Property Component	**Personal Property Component**
Reserve for Replacement	Reserve for Replacement
Value of FF&E in Place	Value of FF&E in Place
	Return on FF&E

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Adjusting for Residual Intangibles

- Competent Management Adjustment
  - Adjust for REVPAR differences
    - Use Comparable not Competitive properties
  - Adjust for expense ratio differences

- The Rushmore Approach agrees with this adjustment if it is applied correctly

Thank you