



PROPERTY TAX SYMPOSIUM

November 4-7, 2018

Hotel Valuation Techniques

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The Hotel Appraisal Process

Hotel Appraisals have Unique Challenges

- Going concerns
- Very management intensive
- Hotels have new customers every single day as compared to apartments and office buildings with annual leases
- Franchises and management companies

The Hotel Appraisal Process

Market Analysis

- A thorough market analysis of the local hospitality market is an essential component of a hotel appraisal
- The value conclusion will depend heavily upon this data
- Market research encompasses a large range of data:
 - Population trends
 - Household growth
 - Household economics
 - Area economics
 - Area transportation
 - Comparative data

The Hotel Appraisal Process

Market Analysis – Understanding the Hotel Market

- Existing competitors: How many competitors exist in the market? How have they performed in past years in terms of occupancy, ADR and RevPAR?
- Recent and potential hotel openings: How many hotel projects have opened in recent years and what is proposed? What types of hotels will they be? How many rooms? What is their projected impact?
- Market segmentation and market penetration: What is the market segmentation and penetration of each competitor in the market?
- Projections: Synthesize the data gathered in the previous steps and project the performance occupancy and ADR for the subject property.

The Hotel Appraisal Process

The Valuation Process: Income Capitalization Approach

- The direct capitalization approach or discounted cash flow (DCF) analysis are appropriate for hospitality properties
- Financial data: Interview management and obtain historical financial statements
- Collect historical performance data: market segmentation reports, occupancy and ADR figures, and other performance statistics
- The appraiser should analyze and estimate various revenue and expense departments in determining the projected net operating income

The Hotel Appraisal Process

The Valuation Process: Income Capitalization Approach

- Capitalization and discount rates
- Hotel management fee and franchise fee
- Real estate tax additor
- Going concern value

The Hotel Appraisal Process

The Valuation Process: Sales Comparison Approach

- Analyze sales of comparable quality and ensure that the sale price is of comparable value (going concern, not real estate only)
- Information should be obtained on sale price, condition of asset, historical performance, ADR, renovation cost information, amenity offerings of the property, and special circumstances concerning each sale.
- Use an adjustment grid to account for differences in location, size of the property, occupancy, ADR, and net income performance, time, circumstances of the sale, etc.

The Hotel Appraisal Process

The Valuation Process: Cost Approach

- The cost to replace the improvements is estimated. Once replacement costs are determined, a deduction is made for any depreciation.
- The result is then combined with the estimated value of the underlying land. This approach is most appropriate when appraising a proposed development where development budgets and land cost are available.
- It is typically not appropriate for an older hotels due to the difficulty in estimating depreciation.

The Hotel Appraisal Process

Allocation of the Going Concern Value

- Personal Property
- Real Estate
- Business Value

The Hotel Appraisal Process

Conclusion

- Compare real estate market value with assessment market value to determine if property is over or under assessed
- Estimate difference in value
- Questions?

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Contesting Hotel Valuations

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Contesting Hotel Valuations in Ohio

Role of County Auditor/Fiscal Officer

- Initially sets values
- Full reappraisal every six (6) years
- Update every three (3) years

Contesting Hotel Valuations in Ohio

Allocation of Property Tax Revenue

- Cities 11%
- Counties 29%
- Schools 57%*
- Library 3%

* School Districts extremely active in defending against valuation complaints in most jurisdictions

Contesting Hotel Valuations in Ohio

The Process

- Complaint
- Board of Revision
- Ohio Board of Tax Appeals
- Court of Appeals
- Supreme Court

Contesting Hotel Valuations in Ohio

The Law

- Fee simple estate, as if unencumbered
- O.R.C. 5713.03
- *Terraza 8, L.L.C. v. Franklin Cty. Bd. of Revision*, Slip Opinion No. 2017-Ohio-4415
- *Arbors East RE, L.L.C. v. Franklin Cty. Bd. of Revision*, Slip Opinion No. 2018-Ohio-1611
- *Hilliard City Schools Bd. of Edn. v. Franklin Cty. Bd. of Revision*, 128 Ohio St.3d 565, 2011-Ohio-2258, 949 N.E.2d 1
- *St. Bernard Self-Storage, L.L.C. v. Hamilton Cty. Bd. of Revision*, 115 Ohio St.3d 365, 2007-Ohio-5249, 875 N.E.2d 85



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Hotel Valuation – Tips from Mickey

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The Hotel Appraisal Process

What is the job of the county property appraiser?

- To discover the market value set by activity in the real estate marketplace and to appraise property accordingly.
- Assess land based on “highest and best use”
- Assess ONLY the “bricks and sticks” of a building.
- Extract out “non real property” components from an assessment (personal property, franchise fees, intangible assets, etc.)

The Hotel Appraisal Process

The Income Approach to Value – What If:

- Commonly used appraisal methods do not remove all of the business value?
- The franchise and management fee reduction does not extract out all of the intangibles?
- A well-managed hotel is being penalized for their excellent service and amenities?

The Hotel Appraisal Process

Walt Disney Parks & Resorts, U.S., Inc. vs
Rick Singh, Orange County Property Appraiser

- Disney's Yacht & Beach Club Resort value increased 118% between 2014 and 2015 (\$154M to \$336M)
- Property appraiser assessed hotel using income approach, relying on the Rushmore method of appraisal and using income provided on state sales tax returns
- Valuation was contested based on the fact that not all intangibles had been extracted from valuation

The Hotel Appraisal Process

Are These Real Property?



The Hotel Appraisal Process

What about ancillary income?

- Food and beverage revenue and merchandise revenue could contain intangibles AND business value



The Hotel Appraisal Process

Walt Disney Parks & Resorts, U.S., Inc. vs
Rick Singh, Orange County Property Appraiser

- Judge's final decree:
 - No consideration given to intangible amounts in actual revenue and expenses since voluntary income and expense survey was not provided by taxpayer.
 - Mandated utilizing market rent for food and beverage locations even if they were not leased to a third party
 - This methodology assured no possibilities of intangible income being included in valuation

The Hotel Appraisal Process

Walt Disney Parks & Resorts, U.S., Inc. vs
Rick Singh, Orange County Property Appraiser

- Final Result:
 - Market Value: \$209M
 - Decrease: (\$127M)
 - Tax Refund: \$1.2M
 - Re-hearing motion denied by judge
 - County has now filed an appeal

The Hotel Appraisal Process

Questions?

