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Hotel Property Tax Issues

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Hotel properties differ from other forms of real estate in many ways which, in turn, result in numerous tax assessment issues for municipal property assessors and appraisers. “Hotels” or hospitality related properties include a mix of uses, including lodging, food and beverage service, meeting rooms, recreational and fitness facilities, etc.

The hotel industry is a complex and volatile business. Assuming competent management, a lodging facility’s success is dependent on its identity and/or brand affiliation, design, the location/quality of the real estate, and furniture, fixtures, and equipment (FF&E). Unlike other forms of commercial real estate, lodging facilities do not benefit from long-term leases or credit tenancies. Since the pricing of room nights continuously changes, hotel profits are highly susceptible to immediate and in many cases dramatic uncontrollable external forces. Examples include geopolitical changes, financial crisis, energy costs, terrorism, crime and civil unrest, climate and environmental factors, health crisis and pandemics, and government reforms and policy changes.

The purpose of this paper is to provide factual information relative to (1) how operating hotels are managed, priced for sale, and properly appraised based on market behavior, and (2) to expose appraiser myths and valuation methodology involving the going concern premise that does not reflect market behavior but is often used in appraisals prepared for owners of hotel real property specifically for tax assessment appeal purposes.

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MANAGEMENT OF THE HOTEL BUSINESS

Hotels generate net income from the intertwining of three agents of production – the hotel real estate (land and improvements), the accompanying FF&E, and the day-to-day operations of the business. The real estate and FF&E are the assets which are reflected in nearly every hotel sale transaction. The total of these components equates to the market value of a hotel as a whole. For property tax purposes, for which the value of the real estate alone must be considered, a deduction must be made for the value of the business (i.e., going concern, if any) and the value of the personal property.

Management Services and Fees

A hotel is a labor-intensive, retail type business that depends on customer acceptance and highly specialized management skills. Unlike other property types that have long-term leases for one or more years, a hotel experiences a complete turnover of patronage every two to four days. A bad reputation spreads rapidly and can have an immediate effect on occupancy and average daily rate (ADR). Further, in addition to the sale of guest-rooms, lodging facilities typically derive income from several other sources including the sale of food and beverages which require additional business and management expertise.

Hotel companies that provide management services can generally be classified into two categories: first tier or second tier. First-tier companies such as Hilton, Hyatt, and Marriott can provide management expertise along with a brand affiliation that is widely recognized by the traveling public as well as a supporting reservation system. Second-tier companies such as Highgate and Aimbridge Hospitality typically provide management expertise but promote and market a property under a brand name through a franchise agreement with a third party. Many first-tier hotel companies, including those previously mentioned, also offer just the use of their brand name and identity coupled with a supporting reservation system under a franchise agreement. Other first-tier management companies such as Four Seasons Hotels & Resorts generally offer their brand names, corporate identities, and reservation system solely in conjunction with their management expertise. Hotel companies such as Choice Hotels (which include the Clarion, Quality, and Comfort Inn affiliations) strictly offer only a brand-name identity along with a reservation system. The cost for these services is commonly referred to as a franchise or royalty fee.

Today's hotel management contracts are routinely structured with fees payable in two parts. The first part is the base management fee. This portion of the fee is usually based on a percentage of gross revenue and as such may be considered payment to the management company for the portion of its services that includes building the hotel's gross revenues. The second part of a typical management fee is called the incentive management fee and is usually based on a percentage of some level of net income (e.g., income before fixed charges, income from operations or even net income after a specified level of debt service or owner's priority return). As such, this portion of the fee may be deemed payment to the management company for the portion of its services that includes monitoring the hotel's expenses and implementing the required control systems.

Typical base management fees average 2.0 percent to 5.0 percent of gross revenues. Typical incentive management fees range more widely, however, from 10.0 percent to 25.0 percent of different levels of net income, typically over and above a priority return to the owner. Usually, the sizes of the base and incentive management fees bear an inverse relationship to each other; the larger the base management fee, the smaller the incentive management fee tends to be, and vice versa.

Franchise Services and Fees

Lodging facilities operated with a franchise affiliation provided by a third party are subject to the payment of franchise fees. Deducting the franchise fees from the stabilized net income removes the remaining portion of the business component from the income stream. Second-tier management companies that do not provide a brand name affiliation as part of their management services typically take less in the way of incentive management fees than do first-tier management companies, which provide a brand name as part of their overall service.

Franchise fees typically include payment for one or more of the following: a royalty fee that represents compensation for the use of the franchiser's name and logo; an advertising or marketing fee for a chain's entire spectrum of advertising and marketing services; and a reservation fee for the costs associated with operating a central reservation system. Franchise fees are structured based on varying formulas. Royalty fees are most often based on a percentage of rooms revenue (or rooms plus food and beverage revenue) that ranges from 3.0 percent to 6.5 percent. Advertising and marketing fees, which are typically based on a percentage of rooms revenues, may range from 1.0 percent to 3.0 percent. Reservation fees can be charged one of three ways: a percentage of rooms revenue typically ranging from 1.0 percent to 2.5 percent; on a dollar amount per available room per month; or on a dollar amount for each reservation placed through the central system. When all the fees associated with affiliation with a hotel franchise company are measured as a percentage of rooms revenue, they typically range from 4.0 percent to 10.0 percent of rooms revenue.

When valuing a lodging facility operated by a first-tier hotel management company that provides (in addition to management expertise) brand identification and a supporting reservation system, hotel investors factor in a management fee larger than that of a facility operated by a second-tier management company that only provides management capabilities. When valuing a lodging facility that is operated by a second-tier hotel management company under an affiliation with a third party that provides brand-name identification with a supporting reservation system, investors consider franchise fees in addition to a management fee. The most appropriate combination of base and incentive management fees or franchise fees must be determined on a case-by-case basis for each hotel, and such criteria as what would be the most likely type of investor in the property, what would be the optimal brand name affiliation (and how much does it cost), what the current fee structure encompassing the property is like and whether it is economic, and what assumptions reflected in the stabilized year forecast of income and expenses should be considered.

Management and franchise fees are typical operating expenses based upon achieved hotel revenues that are deducted in virtually all hotel appraisals for virtually all appraisal uses. Sample expenses paid to the hotel management firms are shown below.

Chain Hotel Management Companies

$$\begin{aligned} \text{Base Management Fee} &= \frac{\text{Total Revenue} \times \text{Base Fee}}{\$34,000,000 \times 3.0\%} &= & \$1,020,000 \\ \text{Incentive Management Fee} &= \frac{\text{Gross Operating Profit} \times \text{Incentive Fee}}{\$9,000,000 \times 10.0\%} &= & \underline{\$900,000} \\ \text{Total Business Value Deduction from Revenue} &&& \$1,920,000 \end{aligned}$$

Independent Hotel Management Companies

$$\begin{aligned} \text{Base Management Fee} &= \frac{\text{Total Revenue} \times \text{Base Fee}}{\$34,000,000 \times 2.0\%} &= & \$680,000 \\ \text{Incentive Management Fee} &= \frac{\text{Gross Operating Profit} \times \text{Incentive Fee}}{\$9,000,000 \times 5.0\%} &= & \$450,000 \\ \text{Royalty Fee} &= \frac{\text{Rooms Revenue} \times \text{Fee}}{\$17,000,000 \times 5.0\%} &= & \underline{\$850,000} \\ \text{Total Business Value Allocation} &&& \$1,980,000 \end{aligned}$$

ENCUMBRANCE ISSUES

Unencumbered Hotels

Prospective hotel buyers typically pay a premium for hotel properties that are unencumbered by a long-term management agreement. The higher price is driven by a wider arena of prospective buyers.

Encumbered Hotels

A passive investment in a first-class hotel encumbered by a long-term hotel management agreement is riskier, but no different than a passive investment in a Class A office building occupied by a long-term, creditworthy tenant. Both yield risk-adjusted returns on commercial properties.

An explanation of the risks involved in encumbered hotel investments is contained in the following statement from the Pebblebrook Hotel Trust 10-K from March 2016.

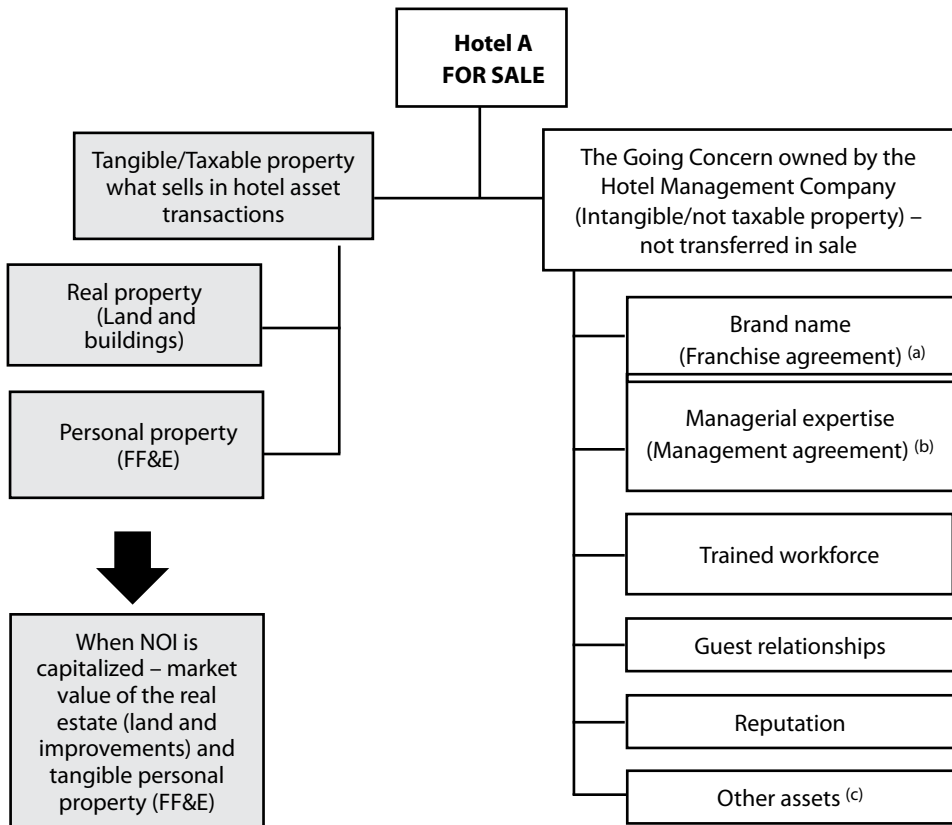
“We will not have the authority to require any hotel property to be operated in a particular manner or to govern any particular aspect of the daily operations of any hotel property (for example, setting room rates). Thus, even if we believe our hotels are being operated inefficiently or in a manner that does not result in satisfactory occupancy rates, RevPAR and ADR, we may not be able to force the management company to change its method of operating our hotels. Additionally, in the event that we need to replace any management company, we may be required by the terms of the management contract to pay substantial termination fees and may experience significant disruptions at the affected hotel.”

Impact of Encumbrance on Market Value

Irrespective of whether a hotel is **encumbered** or **unencumbered** by a management contract, its market value is reflective of real property and FF&E ownership interest in a going concern, not a going-concern value. The going concern is owned by the hotel management company and is included in their corporate assets.

WHAT IS TRANSFERRED IN A HOTEL ASSET SALE TRANSACTION?

Market participants allocate income attributable to intangibles/business through the deduction of management fees and, in many cases, the additional cost of franchise royalty fees. As a result, the transfer of the hotel is only that portion of the net cash flow that reflects the return to the real and personal property components. The net cash flow to the business is already removed, and thus not considered. Investors may passively (**encumbered**) own their hotel assets when they are managed by professional third-party operators. Lodging REITs and pension funds invest in and own hotels, just like other forms of real estate. When an **unencumbered** hotel property is purchased, the buyer is paying for the real estate and the personal property only. The transfer of a hotel involves real estate, FF&E, and the going concern owned by the hotel management company as outlined below.



(a) Includes the franchise company's copyrights, patents, and trademarks; implemented marketing, advertising, and promotion concepts, and reservation systems.

(b) Includes already-developed operating procedures and manuals.

(c) Depending on the hotel, includes liquor license and non-realty leases. Also includes working capital; however, the typical working capital ratio for a hotel is 1:1 since cash is financed by accounts payable. Therefore, hotel owners have no investment in working capital.

VALUATION METHODOLOGY – FOR THE REAL PROPERTY

If FF&E is included in any of the valuation approaches, the FF&E price/value/allocation must be removed and valued separately if required. It can be done in one of two ways.

- Procedure 1 – deduct return on and of the FF&E from the NOI
- Procedure 2 – when the FF&E value is known, simply deduct the value from the estimated combined value of the real estate and the FF&E

An important point to keep in mind is for any hotel asset at any given point in time, there can be only one market value of the tangible property (real estate and FF&E) irrespective of the purpose of the valuation exercise.

Cost Approach

The Cost Approach is almost never used by buyers and sellers in the lodging space. Hence, it is rarely a useful/credible valuation approach. If required by local assessment statutes/policies, the most credible accrued depreciation method is the economic life method related to the entire replacement cost new.

Income Capitalization Approach

The preferred valuation approach usually relied on by buyers and sellers is the Income Capitalization Approach. The Income Capitalization method is overwhelmingly supported by market evidence consisting of –

verifiable facts from comparable sale verifications; public hotel REIT acquisition information; published real estate investor surveys; real estate appraisers who provide services for lenders, pension funds, property owners, and eminent domain condemnation and assessment appeal litigants

It is the standard Income Capitalization Method in the Income Capitalization Approach utilized for virtually all hotel appraisals being performed for virtually any purpose and is utilized by both hotel property owners, investors, and taxing jurisdictions. It works for all types of hotel appraisals:

- Acquisition valuations
- Pension fund quarterly valuations
- Condemnation proceedings
- Mortgage appraisals
- Property tax disputes

Capitalization Rate Methodology

The overall capitalization rate is often derived by one of three methods.

- Comparable Sales – referred to in *The Appraisal of Real Estate*, various editions, as the preferred technique when sufficient information about sales of similar competitive properties is available.
- Band of Investment – often difficult to support the derivation of the equity cap rate. If used, a reliable method of support is a survey of buyers of hotel assets similar to the subject property.
- Investor Surveys – do not reflect actual sale transactions but are based on investor perceptions of anticipated transactions. Their cap rate ranges, and conclusions do

not reflect going concerns but do reflect the real property and usually FF&E. They are best used as secondary support for cap rates.

Direct Capitalization Method Example

Actual categories of revenue and expenses may be slightly different than the following example and are property specific.

| | | |
|---------------------------------------------------------|----------|----------|
| Rooms Revenue | \$ _____ | |
| Food & Beverage | \$ _____ | |
| Other Operated Department | \$ _____ | |
| Miscellaneous Income | \$ _____ | |
| Total Revenue | | \$ _____ |
| | | |
| Departmental Expenses | | |
| Rooms | \$ _____ | |
| Food & Beverage | \$ _____ | |
| Other Operated Departments | \$ _____ | |
| Total Departmental Expenses | \$ _____ | |
| Department Income | | \$ _____ |
| | | |
| Undistributed Operating Expenses | | |
| Administrative & General | \$ _____ | |
| Information & Telecommunications Systems | \$ _____ | |
| Sales & Marketing | \$ _____ | |
| Franchise Fees ⁽²⁾ | \$ _____ | |
| Property Operations & Maintenance | \$ _____ | |
| Utility Costs | \$ _____ | |
| Total Undistributed Operating Expenses | | \$ _____ |
| Gross Operating Profit | | \$ _____ |
| | | |
| Fixed Charges | | |
| Management Fee ⁽²⁾ | \$ _____ | |
| Property Tax (in tax load) | \$ _____ | |
| Insurance | \$ _____ | |
| Reserve for Replacement | \$ _____ | |
| Total Fixed Charges | | \$ _____ |
| Net Operating Income | | \$ _____ |
| Overall Capitalization Rate | | |
| Base Rate | | _____ % |
| Tax Load | | _____ % |
| Tax Adjusted Capitalization Rate | | _____ % |
| Indicated Value | | \$ _____ |
| Less FF&E Value | | \$ _____ |
| Less Capital Expenditures after Purchase, if necessary* | | \$ _____ |
| Indicated Value of the Real Estate (rounded) | | \$ _____ |

(1) Based in part on *Hotel Market Analysis and Valuation: International Issues and Software Applications* by Stephen Rushmore, John W. O'Neill, Stephen Rushmore, Jr. published in 2012 by the Appraisal Institute.

(2) "A first-tier management company operates lodging facilities for third parties under a management contract and provides two types of services: (a) day-to-day operational supervision and property management, and (b) global, national, or regional customer recognition through affiliation with a chain. Marriott, Hilton, Four Seasons, Mandarin, and InterContinental are examples of first-tier management companies." In effect, it combines all of the services contained in separate management and franchise agreements.

*A knowledgeable buyer may consider near-term expenditures that will have to be made upon purchase of a saleable property because those costs affect the price that the buyer agrees to pay.

Sales Comparison Approach

Hotels are identified by various market segments reflecting the different characteristics that generally reflect differences in hotel room prices, quality of design, services, and amenities. Selection of comparable sales can be complicated by the diversity of hotel property format classification. Using comparables of the same classification of the subject

property is preferred. Frequently used market segments and representative brands with the segments are outlined as follows.

| Luxury | Upper Upscale | Upscale | Upper Midscale | Midscale | Economy |
|--------------|----------------|-----------------------|-------------------|-----------------|-----------------------|
| Fairmont | Embassy Suites | Courtyard by Marriott | Best Western Plus | Best Western | Days Inn |
| Four Seasons | Hilton | Crowne Plaza | Comfort Inn | Red Lion | Econo Lodge |
| Loews | Hyatt | Hyatt Place | Hampton Inn | La Quinta | Extended Stay America |
| Ritz Carlton | Marriott | Radisson | Holiday Inn | Mainstay Suites | Red Roof |
| W Hotels | Westin | Residence Inn | TownePlace Suites | Quality Inn | WoodSpring Suites |

Reconciliation

The reconciliation process is no different than what is done in most appraisals.

Income Capitalization Approach - preferred by buyers

Sales Comparison Approach – useful in appraisals since they provide actual cap rates from transactions, seller, and buyer motivations, and reflect actual investments by knowledgeable hotel sellers and buyers

Cost Approach – rarely used by sellers and buyers

The appraiser analyzes the strengths and weaknesses of each approach, including the quality of the data used in each approach, market participant preferences, and exercises judgment to arrive at a final opinion of market value.

GOING-CONCERN PREMISE

The going-concern premise is often used by appraisers engaged by property owners. Useful definitions include –

Going concern

- An established and operating business having an indefinite future life.
- An organization with an indefinite life that is sufficiently long that, over time, all currently incomplete transformations (transforming resources from one form to a different, more valuable form) will be completed.

Going-concern premise

One of the premises under which the total assets of a business can be valued; the assumption that a company is expected to continue operating well into the future (usually indefinitely).

Market value of the going concern

The market value of an established and operating business including the real property, personal property, financial assets, and the intangible assets of the business.

In addition, *The Appraisal of Real Estate, 15th Edition*, published by the Appraisal Institute in 2020 defines market value of a going concern to include “...the fee simple interest in real property along with tangible and intangible personal property.”

Appraisal Myths

A study of the myths that are the foundation of the growing concern premise and the

market realities ignored by this premise is contained in the article “Myth vs. Reality: Going Concern Valuations” published by IAAO in the **January 2022 issue *Fair+Equitable magazine***. The appraisal myths promulgated by appraisers using the Going Concern Premise as the foundation for appraising hotels and corresponding market realities include:

Appraisal Myth – Hotel sales transactions reflect the purchase of going concern.

What really sells is the fee simple ownership or the leasehold interest in the fee.

Appraisal Myth – Hotel transactions include the value of many non-real estate assets, including business start-up costs; assembled workforce; regulatory compliance; accounting and other business systems; reopening marketing; initial operating losses; hotel brand name; licenses; contracts; etc.

The market reality is that none of the above are reflected in hotel transactions, based on verifications of actual hotel sales transactions and SEC documents of public hotel REITs.

Appraisal Myth – The business component of operating a hotel is part of the sale price.

This service is usually carried out by a third party owned hotel management company. Therefore, the management business operation is not owned by the property owner but is owned by the hotel management company and is not sold by the seller to a buyer.

Appraisal Myth – Cap rates quoted in investor surveys represent the sales of going concerns.

These publications reflect the sale of real estate (land and improvements) and usually FF&E. They do not reflect going concern sales. They do not include any intangible assets. Both authors have confirmed this information through personal knowledge or discussions with contacts at the major investor survey publications (PricewaterhouseCoopers, Situs RERC, Cushman & Wakefield, etc.) and through verifications of comparable sale transactions.

Appraisal Myth – Hotel REIT acquisitions reflect going-concern transactions.

In addition to private acquisition of hotels and market behavior, numerous studies of this issue indicate that public hotel REIT acquisitions of hotel property do not reflect going concern and do not contain intangible assets.

As noted in the various hotel REIT acquisitions that follow, price allocations to real estate were 94.55% to real estate and 5.46% to FF&E.

HOTEL REIT PURCHASES⁽¹⁾

2015-2021

| <u>Hotel REIT Name</u> | <u>Sale No.</u> | <u>Date/</u> | <u>Property Name/Location</u> |
|---------------------------------|-----------------|---------------|---------------------------------------------------------------------------------------------------------|
| | | <u>Period</u> | |
| Ashford Hospitality Trust, Inc. | 1 | 2/6/2015 | Lakeway Resort & Spa/Austin, TX |
| | 2 | 4/29/2015 | Hampton Inn & Suites/Gainesville, FL |
| | 3 | 6/3/2015 | Le Pavilion Hotel/New Orleans, LA |
| | 4-12 | 6/17/2015 | The Rockbridge 9 Hotel Portfolio |
| | 13 | 2/25/2015 | Memphis Marriott East Hotel/Memphis, TN |
| | 14 | 7/1/2015 | W Atlanta Downtown/Atlanta, GA |
| | 15 | 7/23/2015 | Le Meridian Minneapolis Hotel/Minneapolis, MN |
| | 16 | 8/5/2015 | Hilton Garden Inn/Wisconsin Dells, WI |
| | 17 | 11/10/2015 | W Minneapolis-The Foshay/Minneapolis, MN |
| | 18 | 10/15/2016 | Hotel Indigo/Atlanta, GA |
| | 19 | 6/29/2018 | Hilton Alexandria Old Town/ Alexandria, VA |
| | 20 | 10/31/2018 | La Posada de Santa Fe/Santa Fe, NM |
| | 21 | 1/22/2019 | Embassy Suites New York Midtown Manhattan/New York, NY |
| | 22 | 2/26/2019 | Hilton Santa Cruz Scotts Valley/Santa Cruz, CA |
| Chatham Lodging Trust | 23 | 2/25/2015 | Residence Inn Gaslamp/San Diego, CA |
| | 24 | 7/17/2015 | Residence Inn/Dedham, MA |
| | 25 | 8/17/2015 | Residence Inn/Ft. Lauderdale, FL |
| | 26 | 9/17/2015 | Hilton Garden Inn/Marina del Rey, CA |
| | 27 | 9/20/2017 | Hilton Garden Inn/Portsmouth, NH |
| | 28 | 12/31/2017 | Embassy Suites by Hilton/Springfield, VA |
| | 29 | 11/15/2017 | Courtyard ChaRleston/Summerville, SC |
| Diamond Rock Hospitality Co. | 30 | 8/3/2014 | Inn at Key West/Ft. Lauderdale, FL |
| | 31 | 9/1/2014 | Hilton Garden Inn/Times Square Central, NY |
| | 32 | 12/3/2014 | Westin/Ft. Lauderdale, FL |
| | 33 | 2/6/2015 | Shorebreak Hotel/Huntington Beach, CA |
| | 34 | 6/30/2015 | Sheraton Suites/Key West, FL |
| Hersha Hospitality Trust | 35 | 3/1/2018 | Landing Resort & Spa/South Lake Tahoe, CA |
| | 36 | 6/16/2015 | St. Gregory Hotel/Washington, DC |
| | 37 | 12/29/2015 | Ritz Carlton/Georgetown, DC |
| | 38 | 1/28/2016 | Sanctuary Beach Resort/Marina, CA |
| | 39 | 3/9/2016 | Hilton Garden Inn/Washington, DC |
| | 40 | 7/21/2016 | Envoy Hotel/Boston, MA |
| | 41 | 10/20/2016 | Courtyard/Sunnyvale, CA |
| | 42 | 1/3/2017 | Mystic Hotel & Spa/Groton, CT |
| | 43 | 2/1/2017 | The Ritz Carlton/Coconut Grove, FL |
| | 44 | 2/21/2017 | The Pan Pacific Hotel/Seattle, WA |
| Pebblebrook Hotel Trust | 45 | 6/29/2017 | The Westin/Philadelphia, PA |
| | 46 | 3/28/2018 | Annapolis Waterfront Hotel/Annapolis, MD |
| | 47 | 3/31/2011 | Westin San Diego/San Diego, CA |
| | 48 | 6/11/2015 | The Tuscan (Hotel Zoe)/San Francisco, CA |
| Xenia Hotels & Resorts, Inc. | 49 | 5/1/2017 | Hyatt Regency Grand Cypress/Orlando, FL |
| | 50-52 | 7/1/2015 | 3 Hotels (Canary/Santa Barbara, CA; Hotel Palomar/Philadelphia, PA; and River Place Hotel/Portland, OR) |
| | 53-54 | 10/3/2017 | Hyatt Regency/Scottsdale, AZ and Royal Palms Resort/Phoenix, AZ |

Ratio to Recorded SEC Sale Price

⁽¹⁾ Information was taken from 10-Ks and/or 10-Qs.

⁽²⁾ Real estate is a combination of land and building improvements.

⁽³⁾ Intangible assets reflect accounting adjustments made by accountants in financial statements and IRS filings consistent with accrual leases, contracts, and ground rent, advance bookings and loan costs.

Source: Research by Korpac Realty Advisors, Inc.

HOTEL REIT PURCHASES⁽¹⁾
2015-2021

| Hotel Transaction Price Allocation Real and Personal Property | | | Accounting Entries | | |
|------------------------------------------------------------------|---------------|-----------------|-------------------------------------|-----------------------------------|----------------------------|
| Real Estate ⁽²⁾ | FF&E | Total | Intangible Assets ⁽³⁾ | Net Other Assets & Liabilities | SEC Recorded Sale Price |
| \$29,244,000 | \$4,237,000 | \$33,481,000 | \$0 | \$0 | \$33,500,000 |
| \$22,697,000 | \$1,390,000 | \$23,836,000 | \$1,412,000 | -\$150,000 | \$25,200,000 |
| \$57,964,000 | \$4,788,000 | \$62,482,000 | \$0 | \$486,000 | \$62,500,000 |
| \$209,503,000 | \$15,451,000 | \$224,954,000 | \$0 | -\$298,000 | \$225,000,000 |
| \$39,144,000 | \$4,350,000 | \$43,494,000 | \$0 | \$34,000 | \$43,500,000 |
| \$54,111,000 | \$2,626,000 | \$56,737,000 | \$0 | \$1,358,000 | \$56,800,000 |
| \$14,335,000 | \$665,000 | \$15,000,000 | \$0 | \$215,000 | \$15,000,000 |
| \$14,784,000 | \$401,000 | \$15,185,000 | \$0 | -\$39,000 | \$15,200,000 |
| \$84,272,000 | \$3,868,000 | \$88,140,000 | \$0 | \$1,937,000 | \$88,100,000 |
| \$25,365,000 | \$1,576,000 | \$26,941,000 | \$0 | \$425,000 | \$26,900,000 |
| \$108,994,000 | \$2,479,000 | \$111,473,000 | \$0 | \$194,000 | \$111,000,000 |
| \$49,316,000 | \$835,000 | \$50,151,000 | \$0 | \$366,000 | \$50,000,000 |
| \$191,666,000 | \$8,626,000 | \$200,292,000 | \$0 | \$1,559,000 | \$195,000,000 |
| \$43,642,000 | \$3,852,000 | \$47,494,000 | \$0 | \$727 | \$47,500,000 |
| \$89,040,000 | \$960,000 | \$90,000,000 | \$0 | \$158,000 | \$90,000,000 |
| \$21,534,000 | \$466,000 | \$22,000,000 | \$0 | \$42,000 | \$22,000,000 |
| \$33,248,000 | \$252,000 | \$33,500,000 | \$0 | -\$205,000 | \$33,500,000 |
| \$43,210,000 | \$1,340,000 | \$44,550,000 | \$0 | \$1,984,000 | \$45,100,000 |
| \$41,230,000 | \$2,120,000 | \$43,350,000 | \$0 | \$25,000 | \$43,400,000 |
| \$66,507,000 | \$1,490,000 | \$67,997,000 | \$0 | \$29,000 | \$68,000,000 |
| \$19,423,000 | \$730,000 | \$20,153,000 | \$0 | \$81,000 | \$20,200,000 |
| \$46,259,000 | \$1,241,000 | \$47,500,000 | \$0 | \$326,000 | \$47,500,000 |
| \$149,196,000 | \$6,204,000 | \$155,400,000 | \$0 | \$370,000 | \$154,100,000 |
| \$137,520,000 | \$11,480,000 | \$149,000,000 | \$0 | \$12,000 | \$149,000,000 |
| \$57,433,000 | \$1,338,000 | \$58,771,000 | \$0 | \$52,000 | \$58,800,000 |
| \$92,550,000 | \$1,378,000 | \$93,928,000 | \$0 | \$500,000 | \$94,400,000 |
| \$39,167,000 | \$3,346,000 | \$42,513,000 | \$0 | -\$685,000 | \$42,000,000 |
| \$56,769,000 | \$3,240,000 | \$60,009,000 | \$45,000 | \$978,000 | \$61,032,000 |
| \$46,730,000 | \$3,270,000 | \$50,000,000 | \$0 | \$0 | \$50,000,000 |
| \$37,107,000 | \$2,369,000 | \$39,476,000 | \$0 | \$198,000 | \$39,674,000 |
| \$96,102,000 | \$9,621,000 | \$105,723,000 | \$874,000 | \$0 | \$106,597,000 |
| \$101,243,000 | \$11,251,000 | \$112,494,000 | \$131,000 | \$0 | \$112,625,000 |
| \$70,966,000 | \$4,034,000 | \$75,000,000 | \$150,000 | \$537,000 | \$75,150,000 |
| \$41,860,000 | \$7,240,000 | \$49,100,000 | \$899,000 | \$0 | \$49,999,000 |
| \$35,927,000 | \$1,064,000 | \$36,991,000 | -\$291,000 | \$0 | \$36,700,000 |
| \$72,335,000 | \$6,665,000 | \$79,000,000 | \$0 | \$0 | \$79,000,000 |
| \$122,605,000 | \$12,028,000 | \$134,633,000 | \$367,000 | \$0 | \$135,000,000 |
| \$43,260,000 | \$1,802,000 | \$45,062,000 | -\$3,199,000 | \$0 | \$41,863,000 |
| \$107,186,000 | \$2,814,000 | \$110,000,000 | \$0 | \$0 | \$110,000,000 |
| \$119,448,000 | \$2,500,000 | \$121,948,000 | \$0 | \$0 | \$122,000,000 |
| \$183,673,000 | \$17,656,000 | \$201,329,000 | \$4,171,000 | \$0 | \$205,500,000 |
| \$222,671,000 | \$21,907,000 | \$244,578,000 | \$422,000 | \$0 | \$245,000,000 |
| \$300,928,000 | \$4,072,000 | \$305,000,000 | \$0 | \$0 | \$305,000,000 |
| \$3,439,894,000 | \$198,771,000 | \$3,638,665,000 | \$4,981,000 | \$10,489,727 | \$368,340,000 |
| 94.55% | 5.46% | 100.01% | 0.14% | 0.29% | |

unting and IRS rules and regulations. They primarily consisted of adjustments for above- and below-market rents, rents on

Other important market realities include -

- Appraisers who perform work for lenders, pension funds, government agencies, and eminent domain condemnation and assessment appeal clients, among others, do not value hotel property based on their going-concern value.
- As with any appraiser regulation/guideline, there can be misinterpretations of what is actually written. USPAP is no exception to this.
 - The USPAP requirement for the appraiser is to “analyze the effect on value of such non-real property items” when “intangibles are included in the appraisal.” Often, the words “when” and “are included” is often ignored.
 - It is sometimes misinterpreted to support the unfounded assumption that a “going concern” is the basis for a hotel sale transaction and, thus, intangibles must be included.
 - This may be true if the seller owns not only the fee simple estate in the real estate but also owns and sells the hotel management business as well. In that case, there may be a business intangible reflected in the sale price.
 - However, hotel transactions do not normally include the transfer and value of the hotel management business, which remains owned by the hotel management company and is not part of the transaction.

CONCLUSION

Verifiable evidence from market behavior supports the exclusion of use of the going concern premise and intangible assets from real property hotel valuations. The evidence includes –

- Comparable sale verifications
- Public hotel REIT acquisitions
- Published real estate investor surveys
- Real estate appraisers providing services for lenders, pension funds, eminent domain litigation, etc.

Contention that individual hotel transactions reflect price/value of going concerns has no identifiable market support. It is based on unfounded theories. It is a myth inconsistent with market behavior.

The overwhelming market evidence on this topic stands in contrast to a barrage of faulty theories and assumptions in appraisals used by property owners in assessment litigation. These unproven myths need to be constantly challenged with unassailable market realities.