

Appraisal – Hot Topics

NC Dept of Revenue – 2019 Advanced Personal/Real Property Seminars
February 19, 2019



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Hot Topics

The Categories

Kardashians	Is it Real?	Weather	Go Dark
-\$100	100	100	100
-200	200	200	200
-300	300	300	300
-400	400	400	400
-500	500	500	500

?

IS IT REAL?

Property Taxation

- Primary Goal is to establish the value of the real property component
- Tangible Personal Property Value based on cost basis and annual tax filings by the owner
- How does presence of intangible value impact the assessable value of the real property?

Going Concerns

- Properties that are valued (in the marketplace) as total going concerns
- Hotels
- Golf Clubs
- Senior Housing
- Restaurants (in some cases)
- Convenience Stores
- Others ??

Market Value of Going Concern

- **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 - The Dictionary of RE Appraisal
- **Market Value of the Total Assets of the Business (MVTAB)** – The market value of all of the tangible and intangible assets of a business as if sold in aggregate as a going concern – The Dictionary of Real Estate Appraisal

Components of Going Concern Value

- Real Property
- Business Personal Property
 - i.e. Tangible Personal Property
- Intangible Business Enterprise Value
 - i.e. BEV
 - i.e. Business Value

Definitions – NC Machinery Act (105-273. Definitions)

- 13. Real Property, real estate, or land. Any of the following:
 - a. The land itself.
 - b. Buildings, structures, improvements, or permanent fixtures on land.
 - c. All rights and privileges belonging or in any way appertaining to the property.

Machinery Act

Definitions Continued

- (14) Tangible Personal Property
 - All personal property that is not intangible and that is not permanently affixed to real property
- (15) Intangible Personal Property

Patents, copyrights, secret processes, formulae, good will, trademarks, trade brands, franchises, stocks, bonds, cash, bank deposits, notes, evidences of debt, leasehold interests in exempted real property, bills and accounts receivable, or other like property.

Warning!

- There is considerable debate around the topic of intangible value – there is not universal agreement
- Should be evaluated on a case-by-case basis

Application to Hotel Properties

- Purchased/priced as total going concerns inclusive of:
 - 1. Hotel Real property
 - a. Land
 - b. Buildings
 - c. Site improvements
 - 2. Tangible personal property
 - Furniture and equipment
 - 3. Intangible personal property

Hotel: Determination of Taxable Real Property Value

- A Process of Allocation by Deduction
- Begin with Value of Total Going Concern b/c that is what is priced/transacted in the market
- Deduct depreciated value of Tangible Business Personal Property based on Actual Tax Filings
- Deduct Intangible Value Component
- Balance after deductions = Taxable Value of Real Property

Tangible Personal Property

- 2. Tangible Personal Property a.k.a. FF&E
- The stuff that falls out if you turn building over and shake it
 - a. Guest room and public space furniture
 - b. Kitchen/laundry equipment
 - c. Computers/software
 - d. Linens/supplies

Value is based on Annual Tax Listings by Property Owner

Hotels: Concepts in Intangible Business Allocation

- (Potential) Intangible Value Components
 - a. Franchise affiliation – do not transfer with assets – new owners have to apply for and pay for new franchise agreements
 - b. Operating cash, receivables, etc. do not typically transfer with hotel in a sale
 - c. “Processes and formulae” often controlled by franchisor and/or management and recognized as an operating expenses (franchise and management fees) in the valuation of the total going concern
 - d. The primary business of a hotel is leasing of the real property, i.e. the guest rooms and meeting/banquet spaces
 - e. There are some situations where hotels have very profitable food/beverage operations that would justify intangible business value allocation
 - e. Excess profits – i.e. operating profits beyond what is necessary to support the value of the real and business personal property value

Example #1

Typical Limited Service Hotel

Limited Service Franchised Hotel

Revenues	Total \$	%	POR	PAR
Rooms	\$3,164,076	97.6%	\$108.00	\$24,528
Other Operated Departments	\$76,172	2.4%	\$2.60	\$590
Other Revenue	\$0	0.0%	\$0.00	\$0
Total Revenues	\$3,240,248	100.0%	\$110.60	\$25,118
Department Expenses (B)				
Rooms	\$703,128	22.2%	\$24.00	\$5,451
Other Operated Departments	\$7,324	9.6%	\$0.25	\$57
Total Department Expenses	\$710,452	21.9%	\$24.25	\$5,507
Total Department Income	\$2,529,796	78.1%	\$86.35	\$19,611
Undistributed Operating Expenses				
Administrative & General	\$275,421	8.5%	\$9.40	\$2,135
Information & Telecommunications	\$12,900	0.4%	\$0.44	\$100
Marketing	\$64,805	2.0%	\$2.21	\$502
Franchise Fees (D)	\$332,228	10.5%	\$11.34	\$2,575
Utilities	\$153,809	4.7%	\$5.25	\$1,192
Property Operation & Maintenance	\$162,012	5.0%	\$5.53	\$1,256
Total Undistributed Expenses	\$1,001,176	30.9%	\$34.17	\$7,761
Gross Operating Profit	\$1,528,620	47.2%	\$52.18	\$11,850
Management Fee	\$129,610	4.0%	\$4.42	\$1,005
Income Before Fixed Expenses	\$1,399,010	43.2%	\$47.75	\$10,845
Fixed Expenses				
Property & Other Taxes	\$60,200	1.9%	\$2.05	\$467
Property Insurance	\$33,540	1.0%	\$1.14	\$260
Total Fixed Expenses	\$93,740	2.9%	\$3.20	\$727
Replacement Reserve	\$129,610	4.0%	\$4.42	\$1,005
Total Expenses	\$2,064,588	63.7%	\$70.47	\$16,005
Net Operating Income (C)	\$1,175,660	36.3%	\$40.13	\$9,114



Hotel Valuation Formula

Value Indication - Direct Capitalization	
Year 1 NOI Projection	\$1,175,660
Overall Capitalization Rate	9.80%
Indicated Value Total Going Concern	\$11,996,535
Rounded to	\$12,000,000

Sample Hotel Allocation

Sample Hotel Allocation #1

Value Opinion for Total Going Concern	\$12,000,000
Less Tangible Personal Property	\$1,000,000
Less Intangible Business Value	\$0
Taxable Real Property Value	\$11,000,000

Example #2

Full Service Hotel

With Very Profitable Food and Beverage Operations

Example Full Service Hotel

With Very Profitable
Food/Beverage Department

Maybe Argument for
Intangible Allocation?

Hotel Example with Large F&B				
Revenues	Total \$	%	POR	PAR
Rooms	\$9,153,320	72.3%	\$220.00	\$69,343
Food & Beverage	\$2,912,420	23.0%	\$70.00	\$22,064
Parking	\$499,272	3.9%	\$12.00	\$3,782
Rentals & Other Income	\$93,614	0.7%	\$2.25	\$709
Total Revenues	\$12,658,626	100.0%	\$304.25	\$95,899
Department Expenses				
Rooms	\$1,872,270	20.5%	\$45.00	\$14,184
Food & Beverage	\$1,893,073	65.0%	\$45.50	\$14,341
Parking	\$269,808	54.0%	\$6.48	\$2,044
Total Department Expenses	\$4,035,151	31.9%	\$96.98	\$30,569
Total Department Income	\$8,623,475	68.1%	\$207.27	\$65,329
Undistributed Operating Expenses				
Administrative & General	\$949,397	7.5%	\$22.82	\$7,192
Information & Telecommunications	\$69,300	0.5%	\$1.67	\$525
Marketing	\$506,345	4.0%	\$12.17	\$3,836
Franchise Fees (D)	\$732,266	8.0%	\$17.60	\$5,547
Utilities	\$208,030	1.6%	\$5.00	\$1,576
Property Operation & Maintenance	\$379,759	3.0%	\$9.13	\$2,877
Total Undistributed Expenses	\$2,845,096	22.5%	\$68.38	\$21,554
Gross Operating Profit	\$5,778,378	45.6%	\$138.88	\$43,776
Management Fee	\$379,759	3.0%	\$9.13	\$2,877
Income Before Fixed Expenses	\$5,398,619	42.6%	\$129.76	\$40,899
Fixed Expenses				
Property & Other Taxes	\$248,400	2.0%	\$5.97	\$1,882
Property Insurance	\$66,000	0.5%	\$1.59	\$500
Total Fixed Expenses	\$314,400	2.5%	\$7.56	\$2,382
Replacement Reserve	\$506,345	4.0%	\$12.17	\$3,836
Total Expenses	\$8,080,751	63.8%	\$194.22	\$61,218
Net Operating Income	\$4,577,874	36.2%	\$110.03	\$34,681

Golf – Real Property

- Land
- Buildings – clubhouse, cart barn, maintenance bldg.
- Site Improvements – greens, tees, bunkers, fairways, irrigation systems, parking lots, tennis courts, swimming pools

Golf – Tangible Personal Property

- Golf Carts – frequently leased
- Golf Maintenance Equipment – owned and leased
- Clubhouse furnishings
- Pool furniture/equipment
- Office equipment

Golf Courses: Intangible Considerations

- Business of Golf = short term rental of real estate, i.e. green fees
- Cart Rentals
- Food/Beverage Revenues – Potential Source of Intangible
- Merchandise Sales – Potential Source of Intangible
- Excess Profits
 - Golf courses typically sell at fraction of replacement cost

Weather Disruptions



Weather: Hotels

- Short term Windfalls

- FEMA Workers
- Displaced Residents
- Utility Workers
- Construction Crews

- Disruptions

- Major Road Closures
- Beaches Closed
- Repairs to the buildings
- Supporting Business Closed

Weather Disruptors - Golf

Costly for Golf Courses

Winter kill

Business disruptions – excessive rain, storm damage

Costly clean-up

Weather Events and Value

- Investors buy based on long term/normalized income
- Do the events have lasting value implications

Other Hot Topics?





Really?!?!?
That question
couldn't be
more stupider