* If you would like more information on how to evaluate your hotel's property tax assessment, drop me an e-mail at srushmore@hvs.com.

RUSHMORE

APPEALING TIME TO REASSESS PROPERTY TAXES

As we approach the bottom of this current economic cycle, hotel owners need to review their property tax assessments to determine whether their properties have been accurately valued by their local taxing jurisdictions. Chances are likely the value determined by the assessor will be greater than the hotel's current market value, which means that a property tax appeal could be in order.

As with any type of real estate appraisal, municipal assessing departments generally utilize the three standard approaches to value: cost, sales comparison and income capitalization. Since hotels are more than just real estate, special valuation techniques are required to separate from the total property value non-reality components such as personal property and the value of the going business, goodwill, franchise affiliation and superior management.

The concept of a real estate tax is to allocate the municipal tax burden on the basis of real estate value—the higher the value of the real estate, the larger the share of the tax burden. To accomplish this objective, property tax assessment should bear a definite relationship to the market value so that properties of equal market values will have similar assessments and properties of higher and lower values will have proportionately larger and smaller assessments.

Example: Assume a taxing jurisdiction has just three properties. According to local assessing procedures, the relationship between assessed value and market value is 60 percent. The following table shows the market values along with the remaining assessed values:

MARKET VALUE/ ASSESSED VALUE

Property	Estimated Market Value	Assessed Value
1	$ 75,000	$ 45,000
2	$100,000	$ 60,000
3	$125,000	$ 75,000
TOTAL		$180,000

The total assessed value of the taxing jurisdiction is known as the tax base and is used to calculate the local tax rate. If the annual municipal budget for this jurisdiction is $9,000, the tax rate would be:

TAX BURDEN ALLOCATION

$$\frac{\$9{,}000}{\$180{,}000} = \$50 \text{ PER \$1,000 OF ASSESSED VALUE}$$

Based on these assessed values, the local tax burden would be allocated as follows:

ASSESSED VALUE/ TAX BURDEN

Property	Assessed Value		Tax Rate		Real Estate Tax Burden
1	$ 45,000	x	$0.05	=	$ 2,250
2	$ 60,000	x	$0.05	=	$ 3,000
3	$ 75,000	x	$0.05	=	$ 3,750
TOTAL					$ 9,000

This example demonstrates certain relationships. The relationship between market value and assessed value does not affect the allocation of the real estate tax burden. Should a fourth property be added to the taxing jurisdiction, the tax base would increase and the tax rate would decrease proportionately, assuming the municipal budget remains constant. A change in the municipal budget only affects the tax rate.

Owners should monitor their property assessments on an ongoing basis to ensure that a favorable assessment relationship among the other hotels in the taxing jurisdiction is maintained. Estimating the market value of their property and comparing it to the market value indicated by the current assessed value accomplish this.

The process of estimating the market value of the real property component of a hotel is highly complicated and requires the services of a qualified hotel appraiser to develop an accurate valuation. However, I have developed some thumb rules that greatly simplify this process and provide a rough estimate of value that can help hotel owners determine whether further investigation might be required. Here is how it works.

Let's assume the local taxing jurisdiction has assessed your hotel for $15 million. The relationship between the assessed value and market value is 75 percent, thus market value indicated by the assessed value is $20 million ($15 million/75%).

Over the past 12 months, the total rooms revenue for the hotel was $8,400,000 and the net income after a reserve for replacement, management fee and franchise fee was $2,250,000. My assessed value rule of thumb calculations is:

Multiply the rooms revenue by two, which in this examples equals $16.8 million,

And

Multiply the net income by 7.5, which in this example equals $16.9 million.

These two calculations provide an estimate of the market value of the real estate. Now take the highest value calculated above and multiply it by the percentage relationship between the assessed value and market value, which in this example is 75 percent. Thus $16.9 million market value equates to an indicated assessed value of $12.675 million, which is a clear indication that this hotel is probably over assessed.

After performing these calculations, the hotel owner can evaluate whether or not to proceed with a property tax appeal. The next step would be to discuss these findings with a qualified hotel appraiser who understands the process of estimating the value of the real property component and can confirm the results rendered by this rule of thumb warrants proceeding with an appeal. We are finding that in today's economy, many hotels would benefit from a property tax appeal.

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