

Assessor Considerations for Valuation of Hotels

Presented By:

**John F. Connolly, MAA, MA Certified General Appraiser #4060
Chief Appraiser, City of Woburn**

Disclaimer: This presentation is for educational purposes only. Opinions or points of view expressed in this presentation represent the view of the presenter, and does not necessarily represent the official position or policies of the City of Woburn, MCAA, MAAO, IAAO or MA Appellate Tax Board. Nothing in this presentation constitutes legal advice.



A person checks into a hotel for the first time in his life, and goes up to his room. Five minutes later he calls the desk and says, "You've given me a room with no exit. How do I leave?" The desk clerk says, "Sir, that's absurd. Have you looked for the door?" The person says, " Well, there's one door that leads to the bathroom. There's a second door that goes into the closet. And there's a door I haven't tried, because it has a 'do not disturb' sign on it." Author unknown

Classification of Hotels

Resort Hotels

Luxury Hotels

Convention Hotels

Boutique

Eco Hotels

Full Service Hotels

Dual Service Hotels

Select Service Hotels

Limited Service Hotels

Suites Hotels

Extended Stay Hotels



"... No, we're not a five star hotel. That's the name of the place... The five star hotel."



Boutique Hotel



Full Service



Dual Service



Extended Stay



Suites Hotel



Select Service Hotel



Limited Service Hotel

HOTELS ARE A UNIQUE PROPERTY CLASS

HOTELS CONSIST OF FOUR CONSIDERATIONS FOR VALUATION

A) LAND

B) IMPROVEMENTS ON THE PROPERTY

C) PERSONAL PROPERTY

D) GOING BUSINESS CONCERN



THE THREE APPROACHES TO VALUE FOR A HOTEL

COST APPROACH

SALES COMPARISON APPROACH

INCOME APPROACH

(Consider all 3 Approaches to Value)

Cost Approach

The cost approach is based on the premise that a prudent purchaser would not pay more for a property than the cost of creating a substitute property with the same utility. Therefore, the value of a property is equal to the vacant site value and the cost of new improvements, less any accrued depreciation.

Accrued depreciation is the total loss in value from the cost new of the improvements to the present worth of the improvements. Accrued depreciation may emanate from physical deterioration, functional obsolescence or external factors that are negatively influencing the property.

The basic procedure to derive a value indication by the cost approach is:

Step 1) Estimate the value of the site as though vacant and available to be developed to its highest & best use

Step 2) Determine which cost basis is most applicable to the assignment: reproduction cost or replacement cost, including:

A) direct and indirect costs

B) the indirect costs incurred after construction to bring the new vacant property up to market conditions and occupancy levels.

C) An appropriate entrepreneurial profit

Step 3) Estimate the total accrued depreciation in the improvements. Accrued depreciation is the total loss in value from the cost new of the improvements to the present worth of the improvements.

Depreciation may emanate from three basic sources: 1) physical deterioration, 2) functional deterioration, 3 external obsolescence of any combination of these sources.

Step 4) Deduct the total estimated depreciation from the reproduction or replacement cost estimate and add the current land value for the site.

Step 5) If necessary, adjust the indicated fee simple value to reflect the property interest being appraised to arrive at the indicated value of the interest in the property.

GETTING STARTED LAND SALES

[illegible]

SOME CONSIDERATIONS REGARDING LAND VALUES
ARE ADJUSTMENTS TO LAND SALES WARRANTED?

A) PHYSICAL CHARACTERISTICS

SIZE

TOPOGRAPHY

WETLANDS / FLOODPLAIN

UTILITIES

B) MUNICIPAL REGULATIONS / ZONING

SPECIAL PERMITS / VARIANCES

MITIGATION (IMPACT) FEDERAL, STATE & LOCAL

C) GEOTECHNICAL

D) ENVIRONMENTAL

ALWAYS ANALYZE THE DATA!

Cost Approach

Hotel Land Values

“The Land Bundle Analysis”

Land Value per square foot of land area

Land Value per square foot of Gross Building Area

Land Value per Acre

Land Value per Room / Unit

Land Value per Key





Construction Cost Estimating References:

- a) HVS Hotel Development Cost Survey
- b) JN+A & HVS Design
- c) Hotel Construction Companies – onsite Project Manager good source
- d) Marshall & Swift
- e) Building Department – Permit Fees / Costs
- f) RS Means
- g) Investor Relations documents / publications for Public and REIT hotel entities

COST APPROACH CONSIDERATION

After all that has been said.....

The Cost Approach most often should not be your primary source for your opinion of value. Hotels are built as an income producing property. Owners and investors of hotels are constructing the facilities to realize a return on their investment. If the new improvements represent the highest and best use of the site, the cost approach may provide additional support for a new hotel.

The Cost Approach may be used as a “check” of reasonableness for your opinion of value.

To determine the real estate value of a hotel, hotel owners and investors base their purchase decisions on the income approach to value. The cost approach can be unreliable in valuing existing properties that suffer substantial accrued depreciation, which may be difficult to accurately quantify for the property.

SALES COMPARISON APPROACH

GETTING STARTED SALES COMPARISON EXAMPLE

Suburban Hotel Sales*									
Location	Brand	Sales Price	# of Rooms	Date of Sale	Deed Reference	Building SF	Land Area Acres	SP - SF	SP - Room
909 Higham Street, Rockland	Best Western	\$ 3,810,000	76	5/16/2011	39931 P 139	34,558	1.97	\$110.25	\$ 50,132
19 Mass. Avenue, Arlington	Howewood Suites	\$ 22,100,000	100	1/4/2012	58228/514	92,120	1.19	\$239.90	\$ 221,000
450 Totten Pond Road, Waltham	Hilton Garden	\$ 18,000,000	148	3/23/2012	58740/207	141,846	4.94	\$126.90	\$ 121,622
215 Wood Road, Braintree	Hampton Inn	\$ 12,500,000	103	6/1/2012	184523 Cert. LC	41,856	1.91	\$298.64	\$ 121,359
43 Newbury St, Peabody	Springhill Suites Marriott	\$ 8,909,863	164	7/13/2012	31524 / 313	117,478	6.27	\$75.84	\$ 54,328
500 Minuteman Road, Andover	Marriott Residence Inn	\$ 11,000,000	120	9/26/2012	13135/170	78,635	30.9	\$139.89	\$ 91,667
550 Winter Street, Waltham	Embassy Suites	\$ 62,612,330	275	11/14/2012	60485/448	225,334	5.97	\$277.86	\$ 227,681
219 Littleton Road, Westford	Regency	\$ 7,000,000	192	12/24/2012	26792 / 271	246,384	20.29	\$28.41	\$ 36,458
727 A & B Marrett Road, Lexington	Aloft and Element	\$ 36,000,000	259	2/1/2013	61118/531	150,155	13.2	\$239.75	\$ 138,996
315 Mishawum Rd, Woburn	Building Only (Holiday I.)	\$ 2,568,900	99	5/10/2013	1069 / 79	45,072	1.65	\$57.00	\$ 25,948
75 Felton Street, Marlborough	Courtyard by Marriott	\$ 23,980,000	202	6/27/2013	62123 / 594	152,243	5.47	\$157.51	\$ 118,713
10 Independence Drive, Chelmsford	Radisson Hotel	\$ 8,000,000	214	8/1/2013	27551/10	243,931	7.18	\$32.80	\$ 37,383
1005 Belmont Street, Brockton	Quality Inn	\$ 3,900,000	64	11/4/2013	43790/338	39,360	3.34	\$99.09	\$ 60,938
740 Elm Street, Concord	Best Western	\$ 5,792,000	105	4/16/2014	63499/284	51,143	20.4	\$113.25	\$ 55,162
401 Lowell Avenue, Haverhill	Best Western Plus	\$ 6,380,000	126	4/15/2014	33219 / 153	36,510	2.378	\$174.75	\$ 50,635
20 International Place, Tewksbury	Town Place Suites	\$ 4,600,000	95	10/1/2014	28519/24	26,440	2.82	\$173.98	\$ 48,421
29 Hancock Street, Quincy	Best Western	\$ 8,000,000	105	10/6/2014	32603 / 582	58,704	5.04	\$136.28	\$ 76,190
2 Van de Graff Drive, Burlington	Hyatt House	\$ 25,181,242	151	11/20/2014	64537/367	109,636	4.948	\$229.68	\$ 166,763
116 Riverside Avenue, Medford	Hyatt Place	\$ 29,359,015	157	12/17/2014	1465/1 LC	97,642	0.81	\$300.68	\$ 187,000
1 Audobon Road, Wakefield	Four Points Sheraton	\$ 9,600,000	285	12/22/2014	64695/294	137,884	5.8	\$69.62	\$ 33,684
5 Wheeler Road, Burlington	Hilton Garden Inn	\$ 29,503,986	179	1/2/2015	1465/100 LC	98,973	11.2	\$298.10	\$ 164,827
123 Old River Road, Andover	Wyndham	\$ 14,050,000	293	4/22/2015	14199 / 240	213,626	13.59	\$65.77	\$ 47,952
287 Crescent Street Waltham	Crescent Suites Hotel	\$ 10,000,000	30	5/14/2015	65360/158	21,077	0.597	\$474.45	\$ 333,333
19 Commerce Way, Woburn	Red Roof Inn Plus	\$ 13,602,426	159	5/21/2015	65404/306	77,398	5.144	\$175.75	\$ 85,550
285 Mishawum Road, Woburn	Fairfield Inn by Marriott	\$ 10,965,089	126	5/26/2015	1471/95 LC	56,120	1.93	\$195.39	\$ 87,025
100 Cabot Street, Needham	Sheraton Needham	\$ 54,000,000	247	6/4/2015	955/127 LC	74,919	4.65	\$720.78	\$ 218,623
434 Boston Providence Turnpike, Norwo	Hampton Inn	\$ 24,000,000	139	6/18/2015	33227 / 422	96,650	3.2	\$248.32	\$ 172,662
259 Elm Street, Dedham	Residence Inn by Marriott	\$ 22,000,000	81	7/31/2015	33365/580	52,943	2.2	\$415.54	\$ 271,605
20 International Place Tewksbury	Town Place Suites	\$ 6,900,000	94	7/7/2015	29218 / 73	52,025	2.8	\$132.63	\$ 73,404
5400 Computer Drive Westborough	Doubletree Hilton	\$ 28,000,000	223	7/8/2015	53976 /329	167,346	7	\$167.32	\$ 125,561
270 Concord Road, Billerica	Courtyard by Marriott	\$ 21,841,400	210	6/24/2015	29175 / 21	104,250	10	\$209.51	\$ 104,007
2 Forbes Road, Woburn	Hilton	\$ 32,119,000	344	11/9/2015	66357/288	237,857	7.98	\$135.03	\$ 93,369
One Burlington Mall Road, Burlington	Marriott	\$ 94,250,000	419	12/9/2015	66501/155	265,827	14.812	\$354.55	\$ 224,940
*Sales per Middlesex County Registry of Deeds; Sales are undadjusted.									

SALES COMPARISON APPROACH TO VALUE

TYPICAL HOTEL INVESTORS DO NOT RELY ON THE SALES COMPARISON APPROACH TO VALUE AS THE PRIMARY APPROACH TO VALUE.

THE SALES COMPARISON APPROACH IS TYPICALLY NOT UTILIZED AS THE PRIMARY APPROACH TO VALUE BECAUSE OF THE DIFFICULTY OF CONFIRMING KEY COMPONENTS TO THE SALE AND THE NUMBER OF ADJUSTMENTS THAT WOULD HAVE TO BE APPLIED TO THE SALE.

SALES COMPARISON APPROACH IS TYPICALLY UTILIZED AS A TOOL TO DETERMINE A RANGE “CHECK” OF VALUES THAT CAN BE UTILIZED TO SUPPORT THE INCOME APPROACH TO VALUE.

FINALLY ON TO THE PRIMARY APPROACH TO VALUE HOTELS

INCOME APPROACH TO VALUE



INCOME CAPITALIZATION APPROACH

Income-producing real estate is typically purchased as an investment. The income capitalization approach is based on the premise that the income-producing real estate is equal to the present worth of the anticipated future benefits of the income derived from the ownership of the property. The income capitalization approach consists of methods, techniques and mathematical procedures that analyze the property's capacity to generate income and converts this income into an indication of present value.

The direct capitalization method is utilized for determining the fair cash value of the fee simple estate of the property. Direct capitalization converts an estimate of a single year's income expectancy into an indication of value by dividing the income by an appropriate factor. The following steps are currently utilized in this direct capitalization method for a hotel for real estate tax assessment purposes in MA:

- Step 1** Determine the total revenue for the property considering the Occupancy Rate, Average Daily Rate and Revenue per Available Room (RevPAR)
- Step 2** Estimate and deduct the following operating expenses: departmental expenses, undistributed operating expenses, fixed operating expenses. In addition, consideration for expense allocations for management fees, franchise fees and replacement reserve (return of and on personal property) expenses which result the net income attributable to the subject property.
- Step 3** Calculate an overall capitalization rate; in addition to a tax factor, if applicable
- Step 4** Capitalize the net income to determine a value estimate via the direct capitalization method.

Currently, **the financial information for most hotels is arranged in a coordinated format with the standards of Uniform System of Accounts for the Lodging Industry (USALI)**. The system was set up to allow for conformance to changing accounting practices. The USALI format provides an easy format for classifying revenue and expense accounts which can be utilized by all classes and sizes of hotels in the marketplace. The standard format allows for similar property types to be analyzed and compared for analysis.

KEY HOTEL TERMINOLOGY

ADR (Average Daily Rate): is defined as the net room revenue derived from the sale of guest rooms divided by the number of paid occupied rooms. Rooms occupied by hotel guests on a paid basis.

REVPAR (Revenue Per Available Room): calculated as ADR (Average Daily Rate) multiplied by the occupancy rate.* Hotel Market Analysis and Valuation: Appraisal Institute

Occupancy Rate: denotes the number of occupied rental units during a given time period (typically 1 year); compared to the total number of available rental units for the time period.

Franchise Fees: A franchise fee is typically charged to a hotel with a brand name, franchise identification and a supporting reservation system. In addition, for the franchise fee, an operator of a hotel typically is provided with national advertising, marketing and exposure in the market. Hotel franchise companies typically charge for a royalty fee, advertising fee and a reservation fee. Hotels typically handle these allocations in different manners in the marketplace. Some hotels include some of these franchise fees in the sales, marketing and / or advertising expense categories of a hotel.

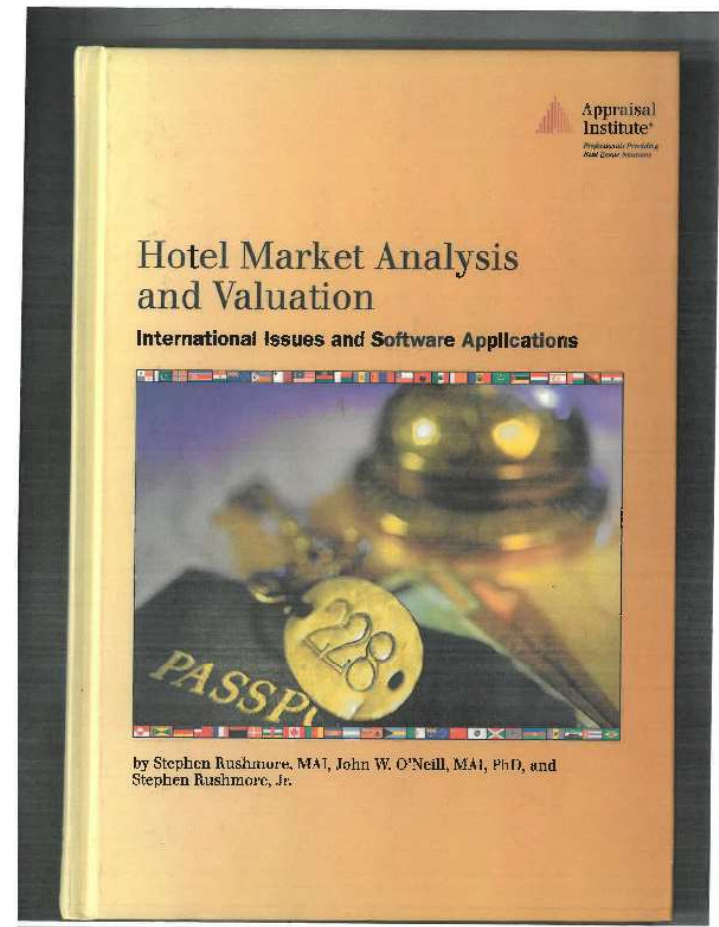
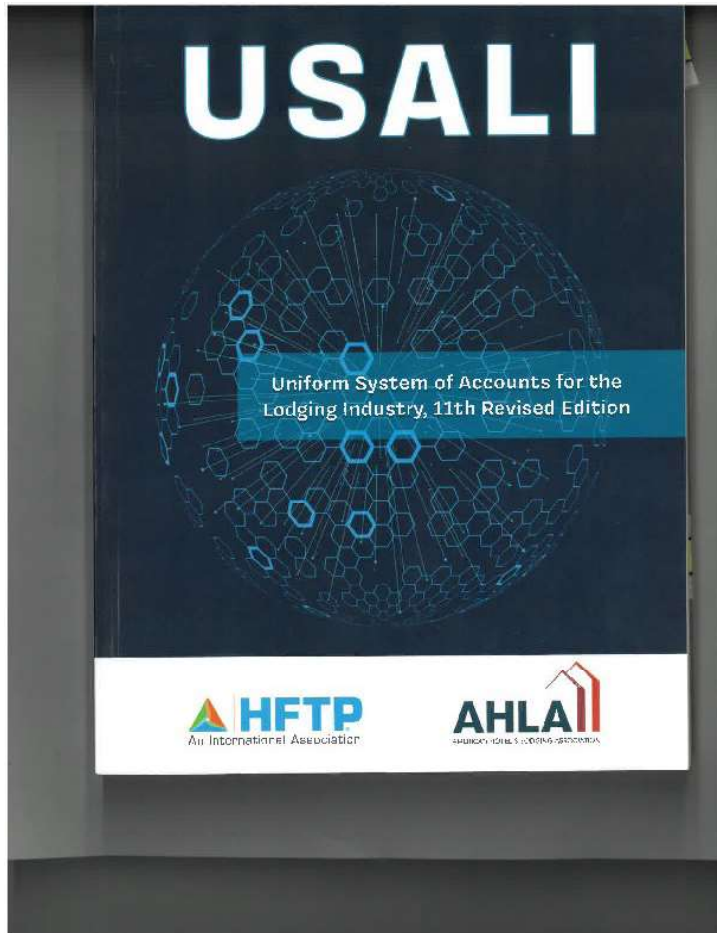
Management Fees: The management fee for the property assumes competent management. It is assumed that a prudent investor would retain competent management and pay competitive fees for management for the property. Management of a property can be handled differently in the marketplace. Some management companies provide management of the hotel along with a hotel brand name affiliation. Other companies in the marketplace provide management of the hotel only. The management fees paid to a hotel management company may be two layered; a base fee and incentive fee.

EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization): In accounting, revenue minus operating expenses (excluding income taxes, interest depreciation or impairment and amortization). The result is a measure of net income. ** Dictionary of RE Appraisal 6th edition

USALI (Uniform System of Accounts for the Lodging Industry): The financial information for most hotels is arranged in a coordinated format with the standards (current 12th Edition) of Uniform System of Accounts for the Lodging Industry (USALI). The system was set up to allow for conformance to changing accounting practices. The USALI format provides an easy format for classifying revenue and expense accounts which can be utilized by all classes and sizes of hotels in the marketplace. The standard format allows for similar property types to be analyzed and compared for analysis in the market.

PIP (Property Improvement Plan) A requirement by hotel brands that owners undertake renovations and upgrades to meet current chain standards. PIPs are generally required when a hotel joins a brand system, when a branded hotel is sold or when a franchise or membership agreement comes up for renewal. * STR

Great Hotel Valuation References



HOW DO ASSESSORS GET THE INCOME DATA FOR PROPERTY?

38D REQUEST
IF ABATEMENT APPLICATION FILED, 61A REQUEST

HOTEL INCOME AND EXPENSE FORM TEMPLATE

Other Sources of Data:

Hotel Data Resources		
HVS International	Hotel Economic Forecasts Trending	HVS.com
CBRE Hotels	Hotel Economic Forecasts Trending	cbrehotels.com
Smith Travel Research	Hotel Industry Research	STR.com
Pinnacle Advisory Group	Outlook Report	pinnacle-advisory.com
Costar	Hotel Economic Forecasts Trending	Costar.com
Hotel Network News	Hotel Articles and Data	hotelnewsnow.com
hotelAVE Hospitality	Hotel Economic Forecasts Trending	hotelave.com
Greater Boston Convention & Visitor Center	Hotel Demand information	bostonusa.com
Marcus & Millichap	Quarterly Market Report	marcusmillichap.com
Cushman & Wakefield Hospitality & Gaming	Hotel Industry Research	cushmanwakefield.com
Jones Lang LaSalle Hotels & Hospitality	Hotel Research	us.jll.com
IRR (Integra Realty Resources)	Viewpoint Report - Hospitality	irr.com
Cornell University School of Hotel Administration	Hotel Industry Research	hotelschool.cornell.edu
BU School of Hospitality Administration	Hotel Industry Research	bu.edu/hospitality
IAAO Library	Hotel Valuation Guide	IAAO.org
Massachusetts Appellate Tax Board	Findings of Fact - Hotel cases	mass.gov/orgs/appellate-tax board

CITY OF WOBURN ASSESSING DEPARTMENT
 City of Woburn, 10 Common Street, Woburn, MA, 01801 * 781-897-5830

Name of Project: Homeday Inn		
Address: 100 Patriot Way	Map: 25	Block: 10 Lot: 10
Owner Name:		
Management Company or Agent:		

YEAR ENDING:	12/31/2020		
FISCAL YEAR	2022		
Days in Year	365	Occupancy	
Number of Rooms		Average Daily Room Rate	
Rooms Available		RevPAR	
Occupied Rooms			

OPERATING REVENUE		
Rooms		
Food and Beverage		
Other Operated Departments		
Miscellaneous Income		
Total Operating Revenues		
DEPARTMENTAL EXPENSES		
Rooms		
Food and Beverage		
Other Operated Departments		
Total Department Expenses		
DEPARTMENTAL INCOME		
UNDISTRIBUTED OPERATING EXPENSES		
Administrative & General		
Information & Telecommunication Systems		
Sales & Marketing		
Franchise Fees*		
Property Operation & Maintenance		
Utilities		
Total Undistributed Operating Expenses		
GROSS OPERATING PROFIT		
Management Fee **		
INCOME BEFORE NON-OPERATING INCOME & EXPENSES		
Real Estate Property Taxes		
Personal Property Taxes		
Insurance		
Other		
Replacement Reserves (Building)		
Total Non-Operating Income & Expenses		
EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization)		
Replacement Reserves for FF & E (Furniture, Fixtures & Equipment)		
EBITDA LESS REPLACEMENT RESERVES		

*Explain how the franchise fee is calculated?
**Explain how the management fee is calculated?
***Explain how replacement reserves are calculated?

Owner or Authorized Agent
Phone:
Signature:

38 D Income and Expense Form
 Similar to USALI Format

Note: Fictional property



City of Woburn

ASSESSORS DEPARTMENT

BOARD OF ASSESSORS

City Hall
10 Common Street
Woburn, MA 01801

Tel.: 781-897-5530

May 18, 2021

By USPS Certified Mail – Return Receipt Requested
Certified Mail Number: 7100 1731 0002 2847 2877 8562

Head In A Bed, LLC
100 Patriot Way
Woburn, MA 01801

*FICTIONAL

FINAL REQUEST

Re: 100 Patriot Way, Woburn, MA
Map 25 Block 10 Lot 1L

To Whom It May Concern:

Our office **has not received** the Fiscal Year 2022 Income & Expense information pursuant to M.G.L. c. 59, § 38D for the above referenced property.

I have enclosed a **final request** for information pursuant to M.G.L. c. 59, § 38D. This request is a duplicate of the request mailed to: Head in a Bed, LLC, 100 Patriot Way, Woburn MA on February 5, 2021, and which was due April 7, 2021.

The Assessors have not received a response to their original request. Would you please complete the duplicate request and return it to our office before June 18, 2021.

The Assessors' issuance of this duplicate request is without prejudice to the Assessor's rights under M.G.L. c. 59, § 38D to seek the dismissal of any appeal filed at the Appellate Tax Board for fiscal year 2022 relating to this property.

Very truly yours,

BOARD OF ASSESSORS OF THE
CITY OF WOBURN

By: _____
Ivana Inspect, MAA
Chairperson

Enclosures: 38D dated February 5, 2020

FICTIONAL*

The Income Approach to Value

Rushmore Methodology

- Analyzes the hotel's stabilized income and utilizes an overall capitalization rate to arrive at opinion of value
- Deduct the allowable expenses for the hotel
- Consideration of management fees and franchise fee deductions (Business Component)
- Deduction for reserves (Personal Property Component)

Business Enterprise Value (BEV) – Hotel valuation approach utilized by some tax representatives. The MA ATB has not recognized this valuation methodology for good reason.

HOTEL BUSINESS IS ALL ABOUT:

A HEAD IN A BED!



DAILY LEASING OF ROOMS

INCOME APPROACH - DIRECT CAPITALIZATION		SAMPLE			
Number of Rooms	100	Location:	100 Patriot Way		
Days in Year	365	City:	Woburn MA		
Total Rooms Per Year (Annual)	36,500	Map - Block- Lot	25-10-1L		
Occupancy Rate (Annual)	62%	Hotel Name:	Homeday Inn		
Occupied Rooms (Annual) (Rooms Sold)	22,630	Hotel Class	Limited Service		
ADR (Average Daily Rate)	\$ 106.00				
REVPAR (Revenue Per Available Room)	\$ 65.72				
		% of Gross	PAR**	POR***	
OPERATING REVENUE					
Rooms	\$ 2,398,780	99.3%	\$ 23,988	\$ 106.00	
Other Operated Department	\$ 15,700	0.7%	\$ 157	\$ 0.69	
Miscellaneous Income	\$ -	0.0%	\$ -	\$ -	
Total Operating Revenues	\$ 2,414,480	100%	\$ 24,144.80	\$ 106.69	
DEPARTMENT EXPENSES					
Rooms	\$ 568,000	23.7%	\$ 5,680	\$ 25.10	
Other Operated Departments	\$ 13,000	82.8%	\$ 130	\$ 0.57	
Miscellaneous Income	\$ -	0.0%	\$ -	\$ -	
Total Departmental Operating Expenses	\$ 581,000	24.1%	\$ 5,810	\$ 25.67	
DEPARTMENTAL INCOME	\$ 1,833,480	75.9%	\$ 18,335	\$ 81.02	
UNDISTRIBUTED OPERATING EXPENSES					
Administrative and General	\$ 208,000	8.6%	\$ 2,080	\$ 9.19	
Information & Telecom Systems	\$ 16,000	0.7%	\$ 160	\$ 0.71	
Sales & Marketing	\$ 297,000	12.3%	\$ 2,970	\$ 13.12	
*Franchise Fees (included In Sales & Marketing)	\$ -	0.0%	\$ -	\$ -	
Property Operations and Maintenance	\$ 85,000	3.5%	\$ 850	\$ 3.76	
Utilities	\$ 96,000	4.0%	\$ 960	\$ 4.24	
Total Undistributed Operating Expenses	\$ 702,000	29.1%	\$ 7,020	\$ 31.02	
Gross House Profit	\$ 1,131,480	46.9%	\$ 11,315	\$ 50.00	
Management Fee	\$ 71,963	3%	\$ 720	\$ 3.18	
Income Before Fixed Charges	\$ 1,059,517	43.9%	\$ 10,595	\$ 46.82	
FIXED CHARGES					
Property Taxes	\$ -	0%	\$ -	\$ -	
Insurance	\$ 23,800	1.0%	\$ 238	\$ 1.05	
Reserve For Replacement					
FF & E Reserve (Return of)	\$ 96,579	4.0%	\$ 966	\$ 4.27	
FF & E Reserve (Return on)	\$ 48,290	2.0%	\$ 483	\$ 2.13	
Short Lived Real Estate Reserve	\$ 50,000	2.1%	\$ 500	\$ 2.21	
Total Fixed Charges	\$ 218,669	9%	\$ 2,187	\$ 9.66	
EBITDA LESS RESERVES	\$ 840,848	34.8%	\$ 8,408	\$ 37.16	
Overall Captilization Rate	8%				
Loaded Tax Factor RE	2.372%				
Overall Capitalization Rate	10.372%				
Value	\$ 8,106,901				
Value Rounded	\$ 8,110,000				
Value per Room	\$ 81,100				
Note: Department Expenses are expressed as a percentage of departmental revenues - (see Operating Revenue)					
* Franchise Fees					
** PAR = Per Available Room					
*** POR = Per Occupied Room					
NOTE: This Proforma is Fictitious and is utilized for educational purposes only.					

Average Daily Rate (ADR):

$$\text{ADR} = \frac{\text{Room Revenue}}{\text{Rooms Sold}}$$

RevPAR (Revenue Per Available Room):

Is utilized to review a hotel's ability to fill its available rooms at an average daily rate. If a hotel's RevPAR increases, it results in average room rate or occupancy rate increasing.

Two formulas for RevPAR calculation:

- 1) Rooms Revenue / Rooms Available
- 2) Average Daily Rate (ADR) x Occupancy Rate

MANAGEMENT FEES

The management fee for a hotel assumes competent management. It is assumed that a prudent investor would retain competent management and pay competitive fees for management for the property. Management of a property can be handled differently in the marketplace. Some management companies provide management of the hotel along with a hotel brand name affiliation. Other companies in the marketplace provide management of the hotel only. Based on an analysis of market information, management fees have ranged from 2% to 5% of total operating revenue.

There may be two forms of Management Fees for a hotel:

1) Management Fee

2) Incentive Fee

- Management Agreement!

***Note – Good reference – HVS Hotel Management Contracts / HVS Guide to Management Contracts**

Franchise Fees

Royalty Fees

Marketing & Advertising Fees

Reservation Fees

Guest Loyalty Program Fees

- USALI – look under Sales & Marketing
- Ask to explain the franchise fees – EG. 38D Income & Expense Questionnaire
- Franchise Agreement

Note: Good reference - HVS US Hotel Franchise Fee Guide

Reserves For Replacement (Personal Property Return of & Return on)

Management companies and owners of hotels typically set up reserves for the replacement of FF & E (Furniture, Fixtures and Equipment). This reserve is typically funded through the hotel's revenue each year. Market participants allocate a percentage of revenue for return of (recovery of investment) and return on (return for use of investor capital until recapture) personal property. Typically, a set percentage of total operating revenue is allocated for return of personal property. Look at:

- Management Agreement
- Mortgage Loan Requirements

CAPITALIZATION RATES (OVERALL)

Definition: Capitalization Rate Overall

“The relationship between a single year’s net operating income expectancy and the total price or value.”

Source: Appraisal Institute: The Dictionary of Real Estate Appraisal, 6th edition ©. 2015

$$\mathbf{R \text{ (Overall Rate)} = I \text{ (Net Operating Income)} / V \text{ (Value)}}$$

TECHNIQUES FOR ESTIMATING OVERALL CAP RATES:

- 1) Sales Extraction**
- 2) Band of Investment**
- 3) Market Surveys (PWC, HVS, CBRE, RERC, Realty Rates, Colliers (Viewpoint), Marcus & Millichap**
- 4) Owner Surveys**
- 5) Assessor Sales Questionnaires**

COMMONWEALTH OF MA HOTEL CASE DECISIONS

COMMONWEALTH OF MASSACHUSETTS

APPELLATE TAX BOARD

BRE/ESA 2005 PORTFOLIO, LLC v. BOARD OF ASSESSORS OF
THE CITY OF WOBURN

Docket Nos.: F324405
F327508
F331417

Promulgated:
May 22, 2018

COMMONWEALTH OF MASSACHUSETTS

APPELLATE TAX BOARD

TWENTY & 50 PARK PLAZA¹ v. BOARD OF ASSESSORS OF
THE CITY OF BOSTON

Docket Nos.: F291212 (FY 2007)
F296897 (FY 2008)
F303493 (FY 2009)
F306975 (FY 2010)

SAUNSTAR LAND CO., LLC v. BOARD OF ASSESSORS OF
THE CITY OF BOSTON

Docket Nos.: F291211 (FY 2007)
F296896 (FY 2008)
F302801 (FY 2009)

Promulgated:
June 12, 2013



(617) 727-3100
(617) 727-6234 FAX

THE COMMONWEALTH OF MASSACHUSETTS

Appellate Tax Board

100 Cambridge Street
Suite 200
Boston, Massachusetts 02114

**STANDING ORDER 1-25
APPRAISAL REPORTS AND VALUATION ANALYSES**

Effective immediately, no appraisal report or other written valuation analysis will be admitted as an exhibit in any hearing unless the author of the report or analysis testifies at the hearing as to the contents of the report or analysis either in-person or via videoconference.

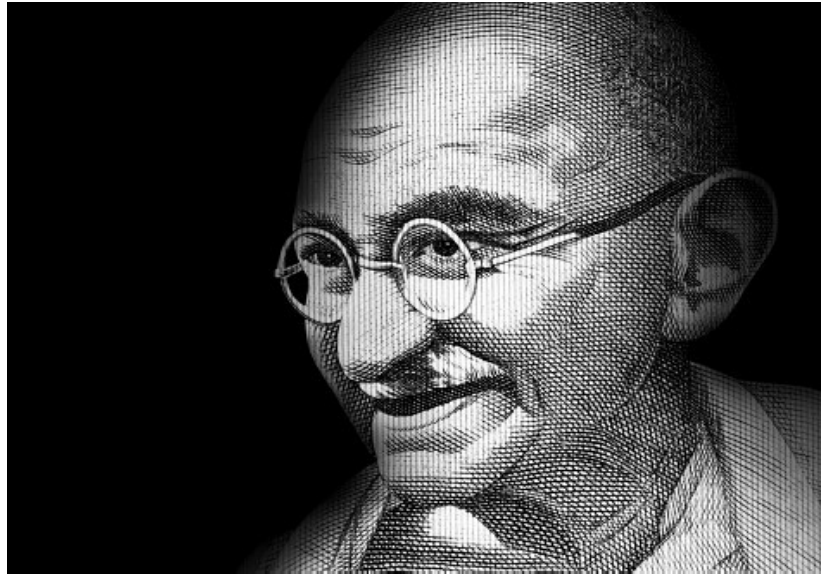
ORDERED ACCORDINGLY

APPELLATE TAX BOARD

By: 
Mark J. DeFrancisco, Chairman

Attest: 
Clerk of the Board

Date: April 7, 2025



“Honest disagreement often a good sign of progress.” Gandhi

BUT

Sometimes our honest disagreement progresses to the MA Appellate Tax Board

THANK YOU FOR YOUR TIME

CHECKING OUT!