JUNE 2010

Hotel Property Tax Appeals:

A Life Line in the Perfect Storm

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A deluge of expenses has met with a drought of income in the current economy. A reduction in property taxes could prove the life line hoteliers need.

In the spring of 2007, signs were evident of an incoming storm that by the beginning of 2008 had begun to fall heavily upon the world economy. In the United States, rating agencies began tightening their belts, signaling the forthcoming credit crunch. The situation turned calamitous in the spring of 2008 with the collapse of Bear Stearns, and the storm intensified to leave in its wake Lehman Brothers and other cornerstones of the financial superstructure, flooding the market with millions of toxic assets. Over the next several months the world was engulfed in the perfect storm, a confluence of two disastrous economic fronts: the collapse of the banking system and the deterioration of the real estate market.

Experts debate whether we're still in the storm's throes or just mired in its aftermath. In either case the damage is plain: hotel travel and revenues have dropped nationwide and values in most markets have suffered rapid declines. Nationwide RevPAR fell by nearly 16.7% in 2009. Net operating income decreases have been even greater given the rise in expenses. To further worsen the situation, 2009 cap rates increased by 200 to 300 basis points compared to 2007 and 2008 rates. As a result, property values have plummeted.

But even the most violent tempest admits an occasional ray of light. For hotel owners beset by heavy expenses and waning demand, this luminary could be a substantial decrease in property taxes. In most states, the appeal date (grievance day) falls sometime in the first half of the year.

Tips for Hotel Owners:

- Retrieve and review your last two real property tax bills or notice of reassessments. You'll likely notice an increasing trend in property values over the past few years, concurrent with the rise in real estate values earlier this decade. As an owner, it's imperative that you have a general understanding of your county's deadlines for the filing of appeals. A professional hotel-services firm can be invaluable when it comes to walking you through the process. HVS has compiled a list of deadline dates to assist hotel owners in filing proper, timely appeals.

- In some jurisdictions, meeting with an assessor or tax authority before the appeals deadline may be beneficial, and a new assessment can often be renegotiated without a formal appeals process. HVS has experience negotiating with municipal authorities on behalf of hotel owners whose increasing tax burdens are conspiring with shrinking demand to cripple their business. City and county officials can be convinced that lowering taxes on struggling properties to keep them viable makes sense, especially with so many economic constraints threatening to close hotels down.

- Equalization or assessment ratios: Don't be fooled by assessment/equalization ratios; too often hotel owners ignore the validity of a property tax appeal because they feel the assessed value is fair. But assessors are under enormous pressure, potentially having thousands of properties to evaluate and often applying national trends to local markets. This can skew the value of a hotel in a direction unfavorable to the property's owner.

- Full market value is the price at which an asset is sold to a willing buyer from a willing seller. The assessment/equalization ratio is the ratio of the assessed value to the full market value. For example, assume a property is assessed at $10 million and the assessment/equalization ratio in the municipality is 70%. This means the full market value of the property is roughly $14.3 million ($10.0 million / .70 = $14.3 million).

- The owner may believe their property to be worth more than $10.0 million, but less than $14.3 million. An appeal is warranted if the full market value is determined to be lower than $14.3 million.

- Remember, any reduction in taxes reflects directly on overall value if you are considering selling your property. For example, a $100,000 drop in property taxes adds about $1 million to value, given a 10% cap rate.

- The sale price of your hotel is NOT the market value of the real estate. The sale price represents the total assets of the business, including personal property and intangible goodwill (that is, the value of brand affiliations or past performance levels). The sale price of a hotel that sold only six months ago is considered stale, given the volatility of the present economy.

HVS recently worked as the representative for an owner on a property tax appeal. The owner purchased the hotel for $24 million, the property was assessed at $18.8 million, and the equalization set at the state level was 67% in the municipality. This means that the full market value of the property was over $28 million. The municipality in this situation did not publish its equalization on the tax bill. HVS simply provided the sale figure and then stripped out the personal property and intangibles, thereby obtaining a $6-million reduction in value. This resulted in a $125,000 savings in property tax expenses per year.

If, as an owner, you're uncertain as to whether your latest assessment accurately reflects the real value of your hotel in the current market, discuss the procedures for filing an appeal with a tax specialist. You have very little to lose, and the upside of major tax savings can be a cornerstone of a strong revenue-management platform for your hotel.

About the Authors

Tom Dolan is Managing Director of HVS Property Tax Services and the HVS Boston office. He has been with HVS Consulting and Valuation Services since November of 2000. Prior to joining HVS, Tom spent over ten years in restaurant and hotel operations. In October 2005, after nearly five years with the firm, Tom relocated to the Boston area where he now oversees operations in the Boston office. His industry expertise includes valuation for mortgage and ad valorem tax purposes. He also specializes in consulting with developers on the feasibility of proposed limited-service, select-service, and full-service hotels. Many projects have been on a very large scale, with regional, national, and international appeal. Tom often lectures on the topic of hotels with an emphasis on hotel property taxes and is considered one of the top professionals in this area.

Chris Elder is a Senior Project Manager with the HVS Boulder office. For over three years, he has performed numerous appraisals and consulting assignments in a variety of markets. Chris specializes in limited-service hotels and proposed hotel developments and has prepared market studies for a variety of proposed properties throughout the United States and Mexico. Chris earned his bachelor's degree in Business Administration from Colorado State University with a concentration in Real Estate Finance and Construction Management. Chris is in the final stages of completing the educational hours needed in order to become a Certified General Appraiser in the state of Colorado. He gained valuable experience in working in the lodging industry in Steamboat Springs, Colorado.

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