

THE STATE OF SOUTH CAROLINA
IN THE COURT OF APPEALS
APPEAL FROM THE ADMINISTRATIVE LAW COURT

John D. McLeod, Administrative Law Judge

ALC Case No. 11-ALJ-17-0299-CC
Appellate Case No. 2013-002550

Tilbros, Inc., ...Respondent,

vs.

Cherokee County Assessor's Office.....Appellant.

RECORD ON APPEAL
VOLUME 2

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William T. Dawson, III
WOMBLE, CARLYLE, SANDRIDGE &
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Post Office Box 999 (29402)
Charleston, South Carolina 29401
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RECEIVED

JUN 30 2014

SC Court of Appeals

ROBERT L. WEAVER

1313 JACKSON ROAD • GASTONIA, NORTH CAROLINA • 28052

704-854-5256 704-813-1037 •

APPRAISERROBW@YAHOO.COM

Objective

I have used the past several years working in the appraisal field for state and county governments, and taking courses to make me a proficient appraiser of many types of properties. I have high expectations for myself and I want to pursue new opportunities. I am experienced, dedicated, and reliable, and want to prove my worth with the right company.

Job Related Training and Affiliations

South Carolina Certified General Appraiser # CG 4493

North Carolina Certified General Appraiser # A7493

American Society of Appraisers (ASA Designation) from 2008 to 2011.

Appraisal Institute Courses and/or Exams completed:

QE4 Residential Market Analysis and Highest & Best Use (15hrs)

QE5 Residential Cost Approach and Site Valuation (15 hrs.)

QE6 Residential Sales Comparison and Income Approach (30 hrs)

QE7 Residential Report Writing and Case Studies (Exam Only)

QE8 Real Estate Finance Statistics and Valuation Modeling (15 hrs.)

Business Practices and Ethics (7 hrs.)

General Market Analysis and Highest & Best Use (Exam only)

Fundamentals of Separating Real, Personal Property, and Intangible Business Assets (15 hrs)

Appraisal Courses:

L-1 Real Estate Appraisal Principles (30 hrs.) Taught by Charles Crider, MAI:

L-2 Residential Valuation (30 hrs.) Taught by Charles Crider, MAI

L-3 Standards of Professional Practice (15hrs.) Taught by Charles Crider, MAI

CR Applied Residential Property Valuation Case Study (15 hrs.) Taught by Joe Camp, GAA

C-1 Introduction to Income Property Appraisal (30 hrs.) Taught by Joe Camp, GAA

C-2 Advanced Income Capitalization Procedures (30 hrs.) Taught by Joe Camp, GAA

C-3 Applied Income Property Valuation (30 hrs.) Taught by Joe Camp, GAA

Principles of Unitary Appraisal (30 hrs.) Sponsored through Utah State University

Work Experience

**April 2009-
Present**

**Cherokee County Tax Assessor's Office
Gaffney, South Carolina
Tax Assessor/ Department Head**

I supervise the daily operations of the office, ensuring compliance with all applicable policies, procedures, laws, and regulations. My duties include placing market values on residential, agricultural properties, and commercial properties.

**July 2007-
April 2009**

**South Carolina Department of Revenue
Rock Hill, South Carolina
State Appraiser/Property Analyst**

Under limited supervision, I assisted in the appraisal of typical and atypical industrial properties, such as manufacturing, warehouses and high-cube bulk distribution facilities.

**November 2006-
July 2007**

**York County Assessor's Office
York, South Carolina
Real Estate Appraiser**

Under limited supervision, I assisted in the appraisal of typical residential, commercial and industrial properties. I assisted in the implementation of programs of property reassessment in an effort to ensure property was accurately and equitably assessed in my assigned areas of the county.

**September 2004-
November 2006**

**South Carolina Department of Revenue
Rock Hill, South Carolina
State Appraiser/Property Analyst**

Under limited supervision, I assisted in the appraisal of typical and atypical industrial properties, such as manufacturing, warehouses and high-cube bulk distribution facilities.

**November 2002-
September 2004**

**York County Assessor's Office
York, South Carolina
Real Estate Appraiser**

Under general supervision, I assisted in the appraisal of typical residential and commercial properties, and the implementation of programs of property reassessment in an effort to ensure that property was accurately and equitably assessed in assigned areas of the county.

Education

May 1995

Belmont Abbey College

Belmont, North Carolina

Bachelors Degree, Business Administration

21 semester hours in Accounting, including Federal Income Tax,
Intermediate, Advanced and Cost Accounting

Member Pi Kappa Phi Fraternity

December 1999

Webster University

Greenville, South Carolina

6 semester hours toward MBA

Finance and Advanced Corporate Finance

June 1988

Boiling Spring High School

Boiling Springs, South Carolina

State of South Carolina Real Estate Appraisers Board

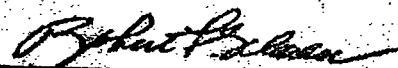
ROBERT L. WEAVER

CG 4493

Having Satisfied The Qualification Of The South Carolina Real Estate Appraisers Board And Having Complied
With The Requirements Prescribed By Law, Is Hereby Entitled To Practice As A
Certified General Appraiser

In Witness Whereof The State Of South Carolina Real Estate Appraiser Board By Virtue Of The Authority
Vested In It By Chapter 60, Title 40 Code Of Laws Of South Carolina Has Caused This Document To Be
Issued With Its Seal Imprinted Hereon.

Property of South Carolina Real Estate Appraisers Board



Administrator

State of South Carolina BCD1014516
Department of Labor, Licensing and Regulation
Real Estate Appraisers Board

ROBERT L WEAVER

Is hereby entitled in practice as a:

Certified General Appraiser

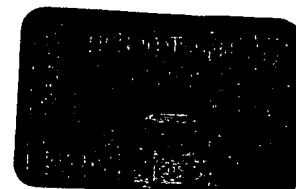
License Number: 4493

Expiration Date: 06/30/2014

POCKET CARD



Administrator



NORTH CAROLINA APPRAISAL BOARD
APPRAISER QUALIFICATION CARD
Expires June 30, 2013

REGISTRATION	LICENSE / CERTIFICATE HOLDER
12	ROBERT L. WEAVER
A7493	
APPRAISER NUMBER	NATIONAL REGISTRY

APPRaiser's SIGNATURE _____ EXECUTIVE DIRECTOR _____



CHEROKEE COUNTY ASSESSOR

OFFICE OF THE COUNTY ASSESSOR

P. O. BOX 1405

GAFFNEY, SOUTH CAROLINA 29342-1405

TELEPHONE: (864) 487-2552

FAX: (864) 487-2555

Date: 12/14/2010

TILBROS INC

%Morris A. Ellison, ESQ.

Buist Moore Smythe McGee, P.A.

P.O. Box 999

Charleston, S C 29402-0999

Re: TM# 063-00-00-060.001

Dear Cherokee County Real Property Owner:

In response to your objection of value dated 09/30/2010, appeal number 349, we have performed an administrative and/or physical (on-site) inspection of the property in question. Per your objection, the following value was established.

Market value before appeal \$1,962,540

Market value after appeal \$1,876,000

IT SHOULD BE UNDERSTOOD THAT IF YOU DO NOT AGREE WITH THE PROPOSED VALUE THE NEXT STEP WOULD BE TO PRESENT YOUR CASE TO THE LOCAL APPEAL BOARD. IF YOU WISH TO APPEAL YOUR CASE TO THE LOCAL APPEAL BOARD, YOU NEED TO FILE A WRITTEN REQUEST TO MY OFFICE WITHIN 30 DAYS OF THE DATE OF THIS LETTER. ENCLOSED IS A COPY OF THE CODE SECTION 12-60-2530 REGARDING THE COUNTY BOARD OF ASSESSMENT APPEALS.

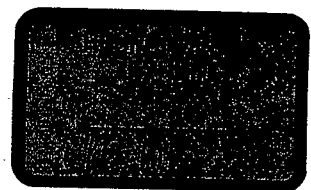
LAST DATE TO PROTEST 01/14/2011

If you have any further questions or concerns, please feel free to contact us.

Sincerely,

ROBERT L. WEAVER

Cherokee County Real Property Appraiser



CHEROKEE COUNTY, SC
BOARD OF APPEALS
May 9, 2011

Womble Carlyle, PA
Mr. Morris A. Ellison, Esquire
P. O. Box 999
Charleston, South Carolina 29342-0999

RE: Tilbros Inc. Property Appeal Tax Map #063-00-00-060.001

Dear Mr. Ellison:

Thank you very much for taking your time and energy to avail yourself of the opportunity to lodge an appeal with the Board. We recognize the importance the property tax plays in the lives of Cherokee County's citizens and investors, and we appreciate your desire to have your grievances heard.

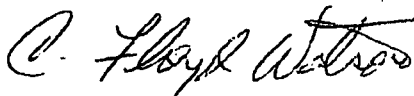
In open hearing regarding the subject property held on Thursday, May 5, 2011, the Board heard the presentation of your appeal and arguments from the Cherokee County Assessor. Having given careful consideration of all of the facts presented in your situation, the Board felt a change was not warranted and voted unanimously to deny your petition.

The value of \$1,876,000 for 2010 will remain for the subject property.

If you find this ruling unsatisfactory, you have the right to request a contested case hearing before the Administrative Law Judge Division of South Carolina. Your request must be made in writing within thirty (30) days from the date of this letter and sent to:

Administrative Law Court
Edgar A. Brown Building
1205 Pendleton Street, Suite 224
Columbia, SC 29201

Sincerely,



C. Floyd Watson
Chairman

P. O. Box 1405, Gaffney, SC 29342 Tel: (864) 487-2552 Fax: (864) 487-2555



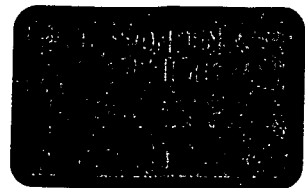
Assessor's Office

Date: March 31, 2011

Appeal Board Hearing

Map Ref: 063-00-00-060.001

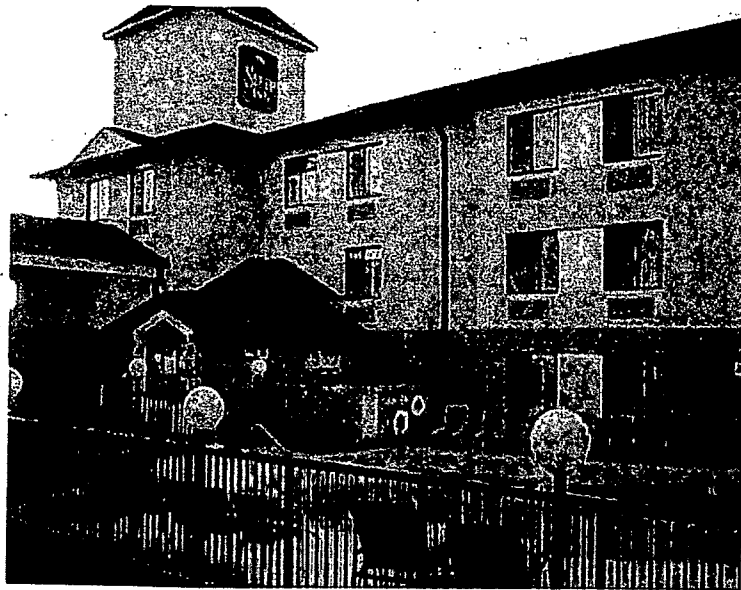
Tax Year: 2010



Subject Property

Tilbros, Inc.

Map Ref. # 063-00-00-060.001

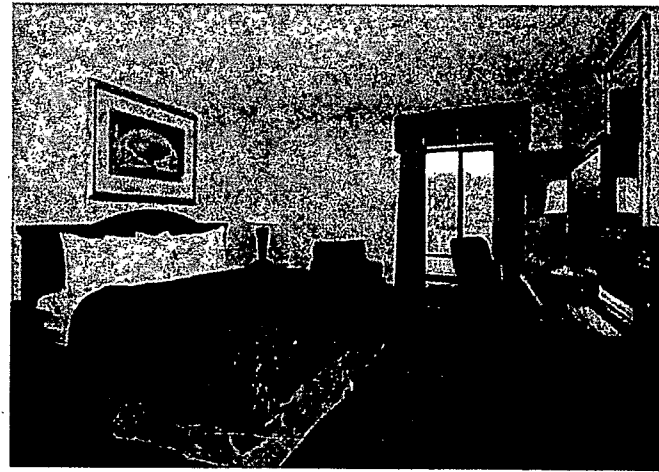
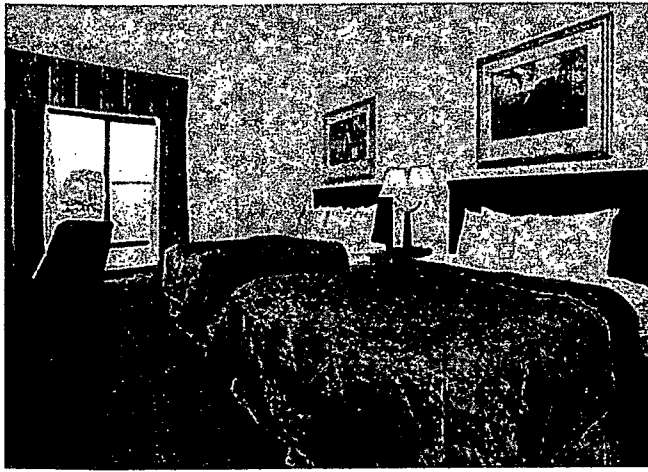


- 1.27 acre lot or 55,321 sq. ft.
- Gross Building Area is 26,760 s/f
- 3 Stories
- 60 Guest Rooms, 1 exercise Room, and 1 Conference Room
- Elevator
- Wet Sprinkler system
- Built in 1999
- Sleep Inn Franchise
- Located at 834 Windslow Avenue
north of I-85 exit 90

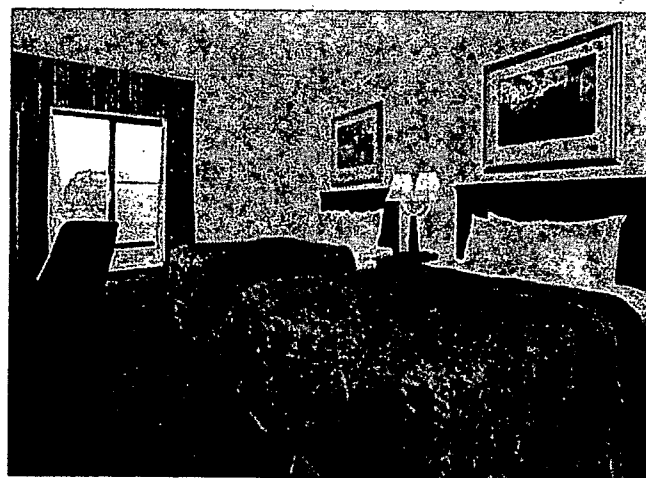
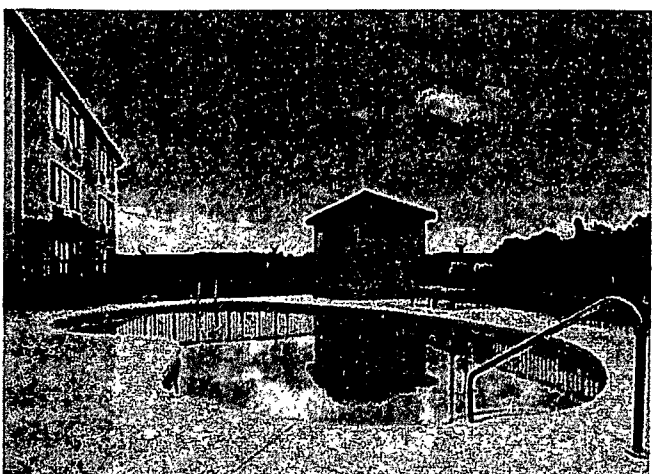
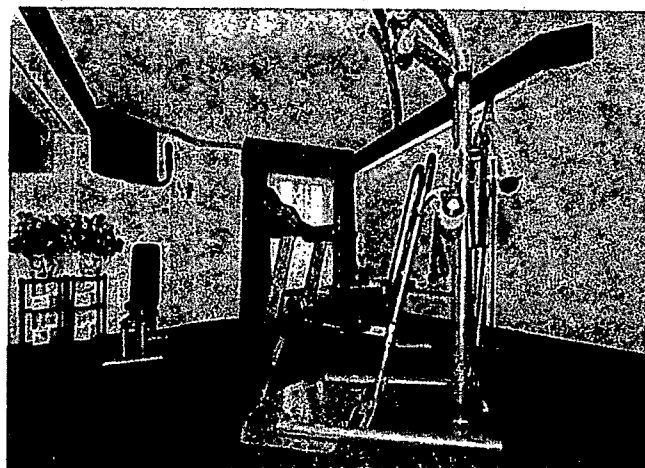
Appeal Procedure Timeline

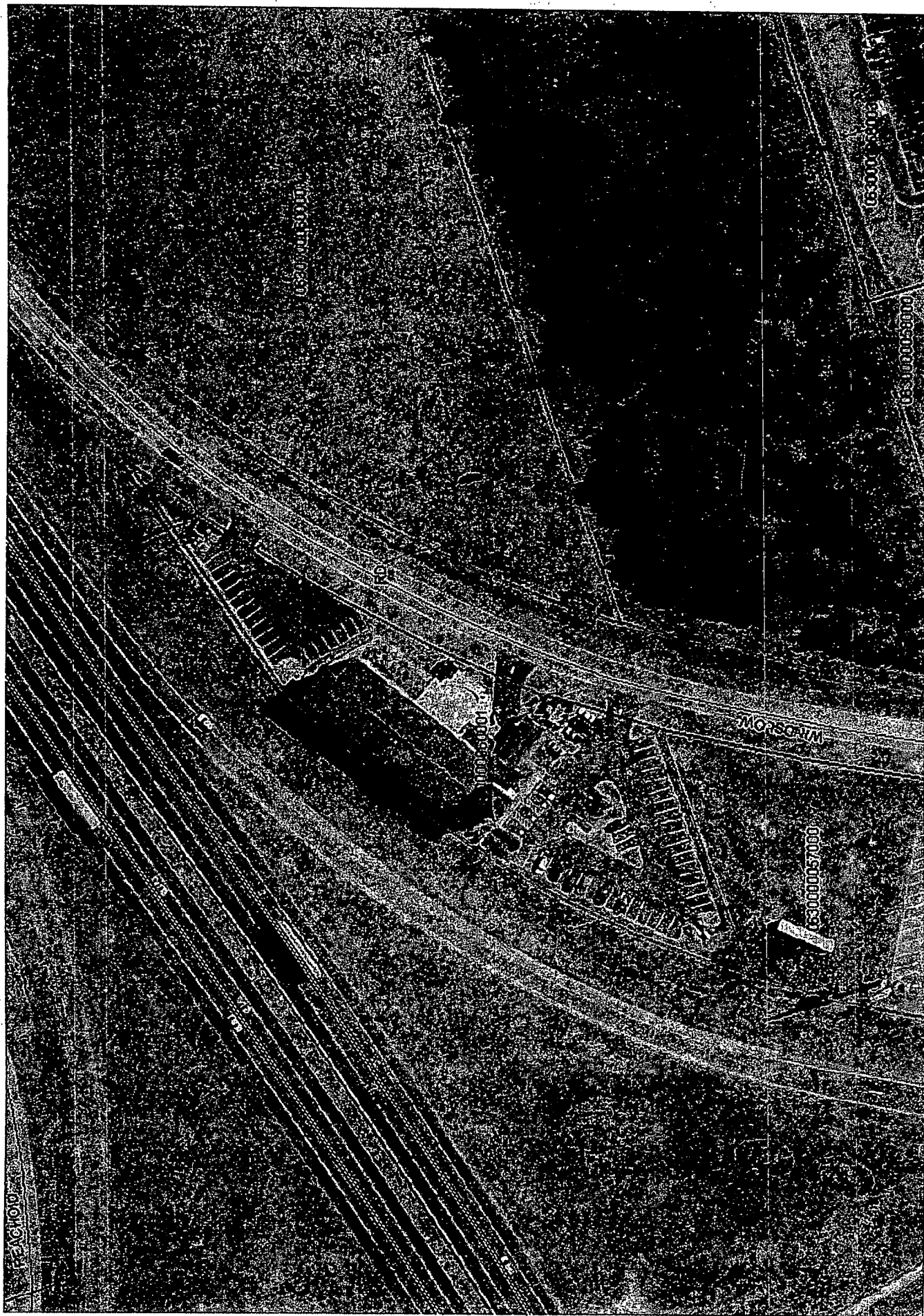
- September 30, 2010, our office received a letter from taxpayer objecting to the total appraised value.
- October 1, 2010, I mailed an income request letter to taxpayer.
- October 12, 2010, I received phone call from Will Dotson, Attorney for the taxpayer to discuss appeal.
- December 13, 2010, I inspected the subject property and spoke with property owner, Ami Tilva.
- December 14, 2010, a change letter was mailed to taxpayer lowering the value from \$1,962,540 to \$1,876,000.
- The Attorney's proposed value is \$941,468.
- December 29, 2010, the tax bill was paid (receipt# 12322105).
- January 13, 2011, our office received a letter from Morris A. Ellison, ESQ. requesting a hearing before the Cherokee County Appeal Board.
- An appeal board hearing was scheduled for March 31, 2011 at 10:00am.

Interior Photos of Subject Property



Additional Photos of Subject Property





Inspection of the Subject

- On December 13, 2010 I inspected the subject property.
- The property appeared to be exceptionally clean and well maintained.
- I spoke with Ami Tilva, property owner, She stated the law firm handling her appeal would get a percentage of the reduction in value (contingent fee). **This is prohibited under the Ethics Rule of (USPAP)**
Uniform Standards of Professional Appraisal Practices.
- Ms. Tilva stated she would not sell the real property for \$941,468.

COST APPROACH

*The **Cost Approach** is one of the three accepted approaches for valuing real estate. It is based on the premise that the informed purchaser will not pay more for a property than the cost of constructing an equally desirable substitute property minus applicable depreciation.

- **Marshall and Swift Valuation Services** is based on years of valuation experience, thousands of appraisals and continual analysis of the cost of new buildings. This publication has been accepted as an authority in the appraisal field for over seventy years.

* The Appraisal of Rural Property Second Edition
American Society of Farm Managers and Rural Appraisers

Cost Approach

Marshall & Swift Cost Manual

2010 Tax Year Value After Appeal

Average Class "C" Limited Service Hotel
Gross Building Area=26,760 square feet
Built in 1999

Sec. 11 Pg. 22

\$87.16 Base Cost
0.880 Perimeter Multiplier (490')
1.02 Cost Multiplier
0.85 Local Multiplier
\$66.50 Net Base Cost per sq ft.

Depreciation

10 years/50 to
10/50 = 20%
50 years total economic life

Swimming Pool
\$30,000

26,760	sq ft
x \$66.50	per sq ft
1,779,540	Replacement Cost New
<u>0.8</u>	(20% Depreciation)
1,424,000	
30,000	Swimming Pool
34,000	Asphalt Paving
<u>47,000</u>	<u>Sprinkler system</u>
1,535,000	Building Value
<u>+341,000</u>	<u>Land Value</u>
\$1,876,000	Total Value via cost approach

Asphalt Paving

Approx. 23,000 sq. ft.
x \$1.85 per sq. ft.
\$42,550 Replacement Cost New
.80 (20% Depreciation)
\$34,000 Asphalt Paving Value

Income Approach

- * Direct Capitalization is a method used in the income capitalization approach to convert a single year's income estimate into a value indication. This conversion is accomplished in one step: either by dividing the income estimate by an appropriate income rate, or by multiplying it by an appropriate income factor.

* The Appraisal of Rural Property Second Edition
American Society of Farm Managers and Rural Appraisers*

Definitions

ADR (Average Daily Rate) -Room revenue divided by rooms sold.

Occupancy -Rooms sold divided by rooms available multiplied by 100.

Competitive (Comp) Set – A peer group of competitive hotels selected by hotel management to benchmark the subject property's performance.

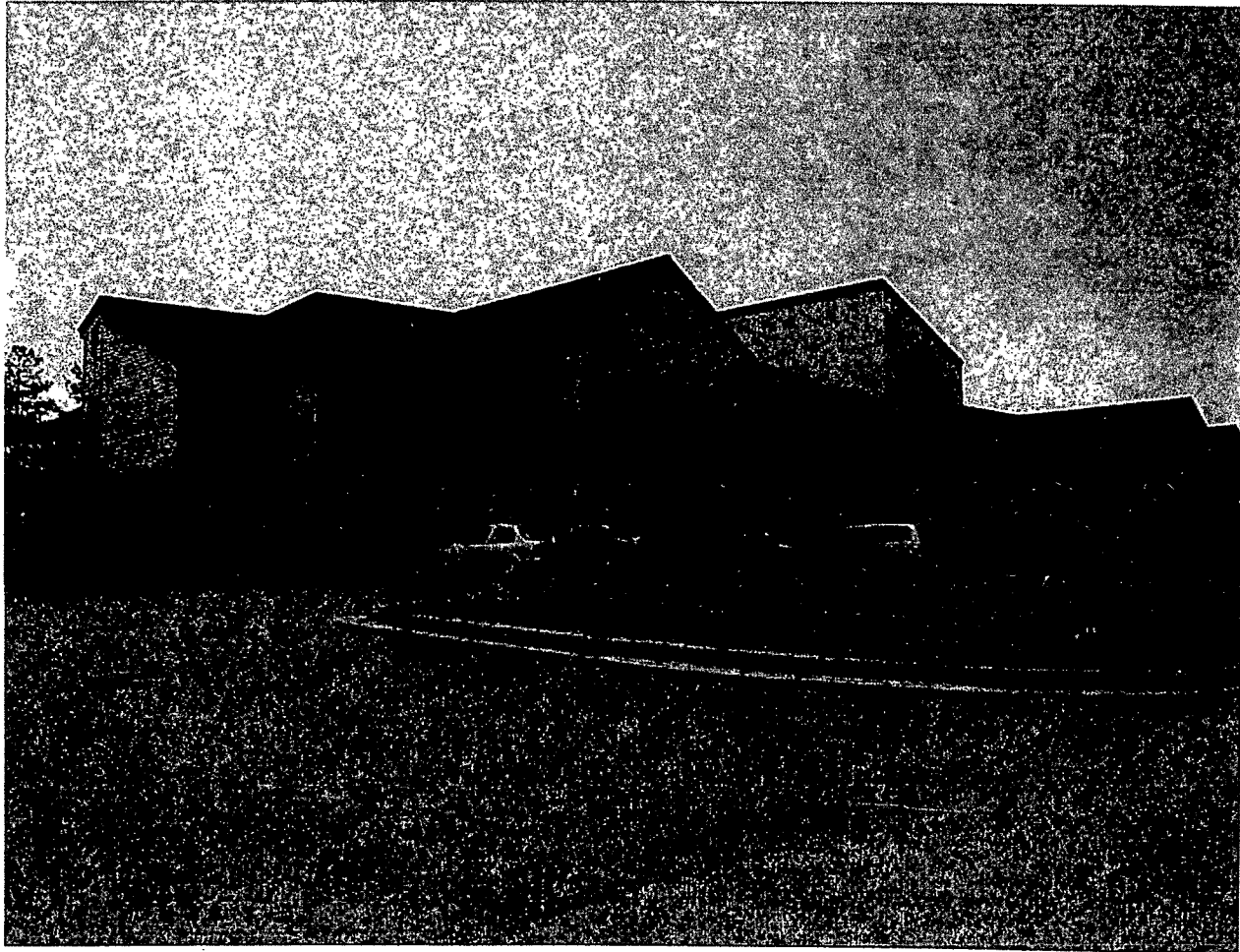
Definitions per Smith Travel Research Report furnished by Taxpayer.

Competitive Set Analysis:

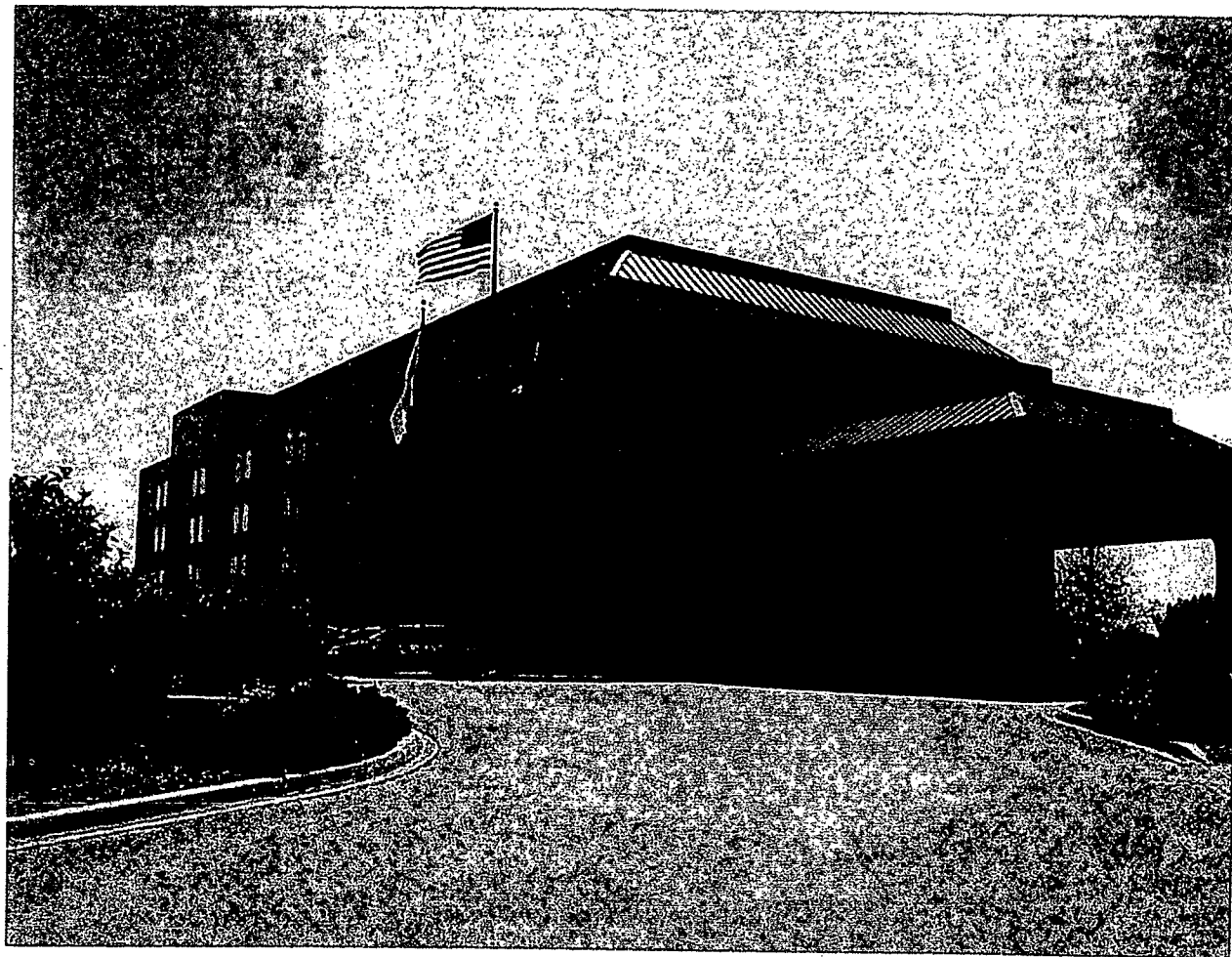
To determine what figure should be used as a market average daily rate and what the market occupancy level for the subject hotel should be, the analysis of the competition in the market must be completed. Therefore, the Assessor requested and received a copy of the Smith Travel Research Report from the taxpayer. According to the taxpayer, their competitive set is as follows:

- 1.) Red Roof (very similar) 63 Rooms & Open Date=April 1999
- 2.) Hampton Inn Gaffney 85 Rooms & Open Date=Nov. 1999
- 3.) Quality Inn 83 Rooms & Open Date=Nov. 1986
- 4.) Super 8 Motel Gaffney 60 Rooms & Open Date=Sept. 1986

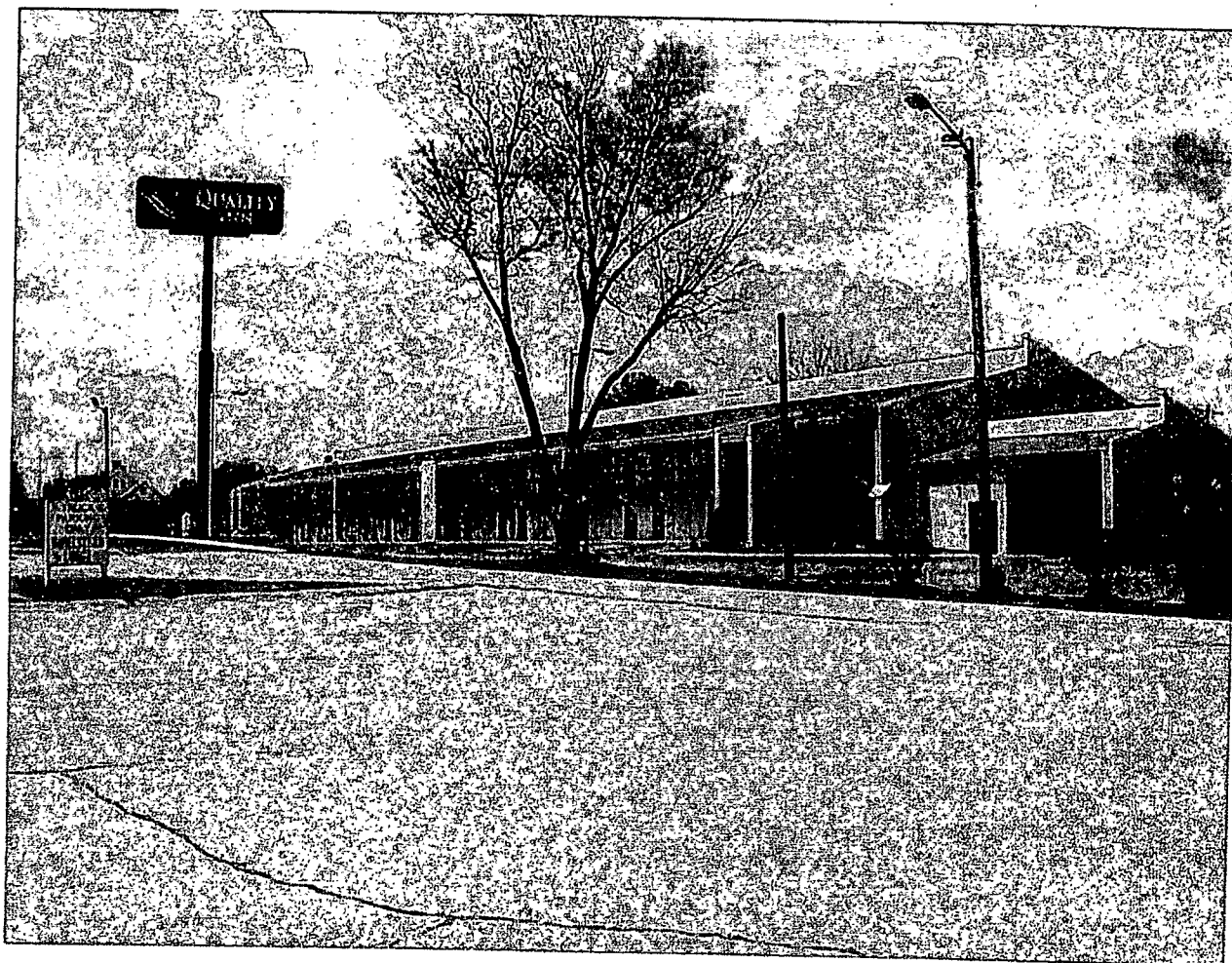
Comparable No. 1



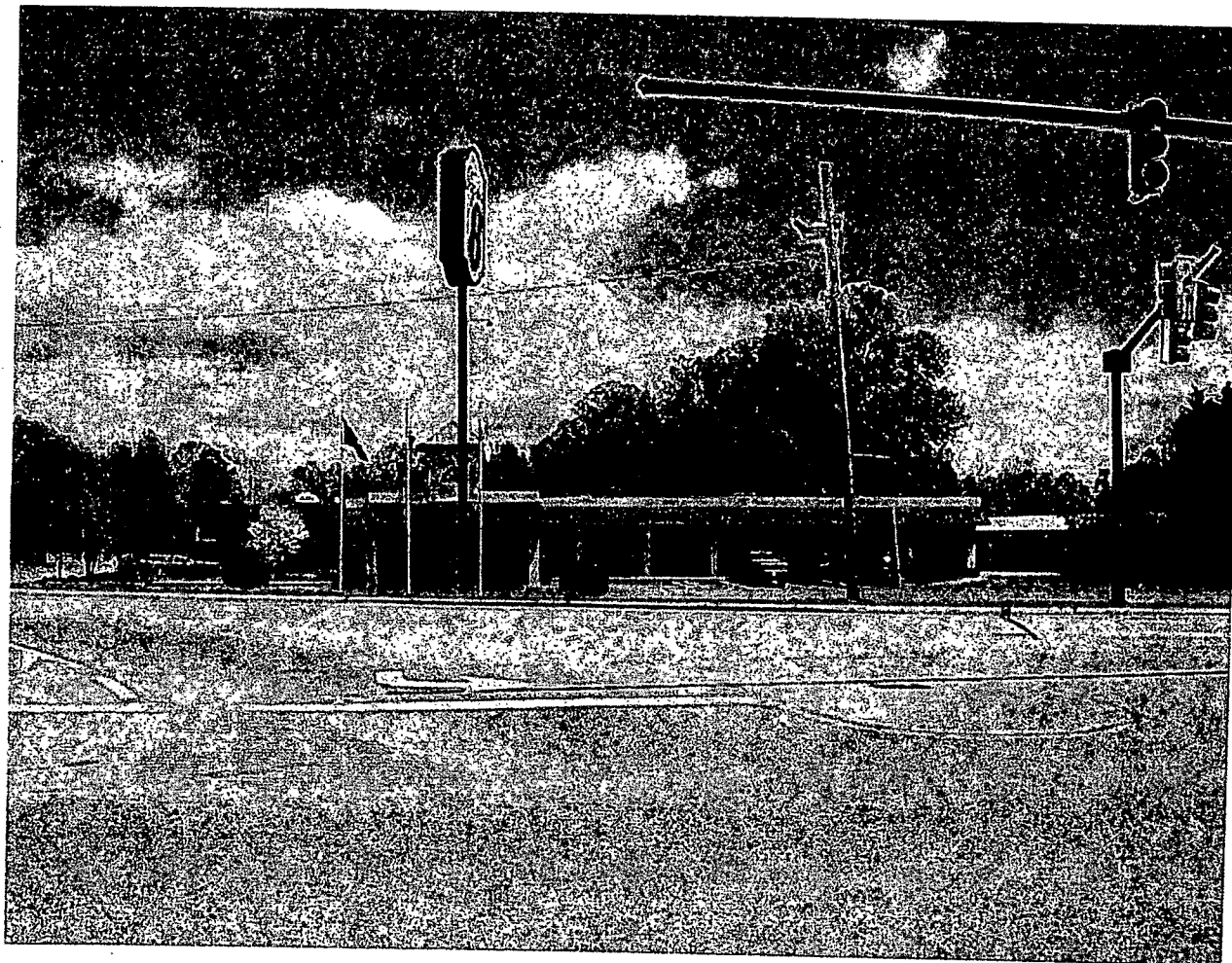
Comparable No. 2



Comparable No. 3



Comparable No. 4



Average Daily Rate Analysis:

The first step in calculating the Potential Gross Income of the subject property is to find the average daily rate of the competitive set.

The average daily rate (ADR) in the competitive set for 2009 was \$67.79 and \$69.75 for the subject property. (I used \$67.79)

According to the owner, Ms. Ami Tilva, the 2010 Average Daily Rate was \$64.37 for the subject and \$68.47 for the competitive set. Also, the room (rack rates) are \$89.00 to \$109.00 per Ms. Tilva.

Occupancy Rate Analysis:

The next step in calculating the income for the subject property is to find the occupancy rate of the competitive set. The occupancy rate for the competitive set for **2009** was 49% and 40.4% for the subject property. (I used 49%)

According to the owner, Ms. Ami Tilva, the **2010** Occupancy rates for subject was 56.6% and for the competitive set was 54.4 %.

Measuring Business Value

- **Rushmore Method**-Deducting a Management Fee and Franchise Fee from Net Operating Income. Developed by Steve Rushmore, MAI and founder of HVS, who is considered a leading expert in the hotel valuation field.
- **Defense of the Rushmore Method**
No one would pay more for a business than it would cost to duplicate it.

This is the most widely accepted method for hotel valuation and isolating intangibles.

Steve Rushmore's Biography

- Steve Rushmore, FRICS, MAI, CHA, is the president and founder of HVS, a global consulting and services organization with more than 25 offices worldwide focused on the hotel, restaurant, timeshare, gaming, and leisure industries. Established in 1980, HVS has provided consulting and valuation services for thousands of clients in all 50 states and more than 60 foreign countries. The company specializes in complex issues involving hotel feasibility, valuations, and financing. Steve directs the global operation of HVS and is responsible for future office expansion and new product development. He was one of the creators of the Microtel concept, has written numerous books and articles on hotel feasibility studies, appraisals, and other aspects of hotel investing, and actually owns and operates hotels.

Projected Income and Expense

Room Sales:

60 rooms x \$67.79 ADR x 365 Days= **Potential Gross Income=** \$1,484,601
Other Income (not included)

Occupancy:

2009 Occupancy rate of the competitive set 49%

Effective Gross Income (EGI) **\$727,454**

Expenses:

Supplies Expense per Taxpayer	\$119,216
Expenses per Taxpayer (\$578,849.24-\$198,307)	\$380,542
Replacement & Allowance Expense estimated @ 1%	<u>\$6,314</u>
Total Expenses	<u>\$506,072</u>
Net Operating Income (NOI)	\$221,382

Note: \$578,849.24 Total expenses per Taxpayer's 2009 Financial Statements
Less \$198,306.77 Interest Expense. (Franchise Fee of \$47,803.67
& Salaries are included in the expenses).

Average Daily Rate (ADR) and Occupancy rate of competitive set per Smith Travel Research report provided by taxpayer.

Direct Capitalization

\$221,382 NOI = \$2,214,000

.10 Overall cap rate (OAR)

Personal Property estimated at \$1,200 per room x 60 rooms = $\frac{\$2,214,000}{.10} = \underline{\$22,140,000}$

RESIDUAL VALUE TO THE REAL PROPERTY $\$2,142,000$

I spoke with Ernie Cain, CHA (Certified Hotel Administrator) who stated the resale value is no more than \$200 to \$300 per room for used FF&E. However, a local appraiser I spoke with uses \$1,200 per room to value the FF&E., which is probably on the high side.

I spoke with a couple of local appraisers in 2009 regarding overall capitalization rates and they were using 10%. This cap rate was used for the 2009 hotel appeals.

Fair and Equitable

SECTION 12-43-210. Uniform and equitable assessments; rules and regulations.

- (A) All property must be assessed uniformly and equitably throughout the state. The South Carolina Department of Revenue may promulgate regulations to ensure equalization which must be adhered to by all assessing officials in the state.

Current Assessed Values Per Assessor's Office of Limited-Service Hotels located in Gaffney, SC

Name	Address	Map Ref #	Market Value	# Rooms	Year Built	Price/Room
Sleep Inn (Subject Property)	834 Windslow Ave Gaffney SC 29341	063-00-00-060.001	\$1,962,540 Before Appeal	60	1999	\$31,654
Sleep Inn (Subject Property)	834 Windslow Ave Gaffney SC 29341	063-00-00-060.001	\$1,876,000 After Appeal	60	1999	\$31,267
Sleep Inn (Subject Property)	834 Windslow Ave Gaffney SC 29341	063-00-00-060.001	\$941,468 Per Attorney, Morris Ellison	60	1999	\$15,691
Red Roof Inn	132 New Painter Dr Gaffney SC 29341	063-00-00-058.003	\$1,950,000	64	1999	\$30,469
Hampton Inn	115 Nancy Creek Rd Gaffney SC 29341	063-00-00-052.008	\$4,649,980	85	1999	\$54,706
Jameson Inn	101 Stuard St Gaffney SC 29341	080-00-00-122.001	\$2,327,000	60	1998	\$38,783
Super 8 Motel	100 Ellis Ferry Ave Gaffney SC 29341	080-00-00-029.000	\$1,835,000	60	1986	\$30,583
Quality Inn	143 Corona Dr Gaffney SC 29341	080-00-00-057.000	\$1,327,500	83	1987	\$15,994

- An Assessor's valuation is presumed correct and the property owner bears the burden of proving the Assessor's determination is not correct. 84 C.J.S Taxation 410 (1954). Ordinarily, this is done by proving the actual value of the property. The taxpayer may, however, show by other evidence that the assessing authority's valuation is incorrect. If he does so, the presumption of correctness is removed and the taxpayer is entitled to appropriate relief. Cloyd v. Mabry, 295 S.C. 86, 367 2d 171 (Ct. App. 1988).
- Therefore, it is the Assessor's Office opinion that the total appraised value of \$1,876,000 is the property's fair market value for ad valorem taxation.

ADDENDA

Copy of 2009 Profit & Loss Statement

Appraisal Institute Articles regarding hotel industry

Copy of Code Section 40-60-30 License requirements

Copy of Smith Travel Research Report furnished by taxpayer

11:54 AM

04/01/10

Accrual Basis

Tilbros, Inc.
Profit & Loss
 January through December 2009

	Jan - Dec 09
Ordinary Income/Expense	
Income	
Miscellaneous Nontaxable Sales	24,156.92
Room Sales	626,508.39
Total Income	650,665.31
Cost of Goods Sold	
Cleaning Supplies	601.16
Merchant-Account Fees	2,782.66
Pool Supplies	631.85
Purchases - Resale Items	
Food & Beverages	27,870.82
PPV Movies	1,599.33
Total Purchases - Resale Items	29,470.15
Room Supplies	85,729.79
Total COGS	119,215.61
Gross Profit	531,449.70
Expense	
Automobile Expense	1,232.02
Bank Service Charges	8,163.92
Computer and Internet Expenses	2,346.15
Insurance Expense	
Worker's Comp	495.64
Insurance Expense - Other	13,451.57
Total Insurance Expense	13,947.21
Interest Expense	198,308.77
Laundry Supplies	1,555.09
Licenses & Fees	7,181.15
Maintenance and Repairs	
Elevator Maintenance	2,926.35
Pest Control	900.00
Telephone Maintenance	960.00
Maintenance and Repairs - Other	8,201.39
Total Maintenance and Repairs	12,987.74
Marketing	44,448.32
Meals & Entertainment	17.71
Miscellaneous Expense	3,359.63
Office Expense	729.82
Officers Life Insurance	1,110.00
Payroll Tax Expense	8,863.38
Royalties	47,803.67
Security	2,045.58
Subcontract Labor	3,177.73
Taxes - Property	48,438.13
Telephone Expense	12,886.13
Travel Agency Commissions	10,282.72
Travel Expense	1,547.19
Uniforms	1,244.58
Utilities	
Cable & Internet	13,124.02
Dumpster	1,246.65
Electricity & Water	32,590.91
Gas	3,842.89
Utilities - Other	3,022.97
Total Utilities	53,827.44
Wages - Other	93,347.16
Total Expense	578,849.24
Net Ordinary Income	-47,399.54

11:54 AM

04/01/10

Accrual Basis

Tilbros, Inc.
Profit & Loss
January through December 2009

	Jan - Dec 09
Other Income/Expense	
Other Income	
Sales Tax Discount	858.00
Total Other Income	858.00
Net Other Income	858.00
Net Income	-46,541.54

Stay up-to-date on current market trends! [Click here to view the latest Economic Indicators.](#)

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Hotel Acquisitions Could Rise 25 Percent in 2011: Jones Lang LaSalle

Hotel sales and acquisitions in the Americas may reach \$13 billion in 2011, a 25 percent jump from the \$10.5 billion spent in 2010, according to a Jan. 4 statement from Jones Lang LaSalle Hotels. JLL said real estate investment trusts and foreign investors seeking to disperse funds will drive the market.

"Due to additional capital raises, REITs are expected to continue to be dominant buyers in 2011 and private equity groups and institutional investors will increasingly join the mix as leverage levels and terms improve," Arthur Adler, managing director and Americas chief executive officer at Jones Lang LaSalle Hotels, said in the statement.

The U.S. will be one of the most active markets for deals globally, according to JLL. Investors from the Middle East will help increase transactions on the U.S. East Coast in 2011. Asian buyers, who accounted for about 8 percent of U.S. purchases in 2010, will continue to boost demand and target primarily the western U.S., Bloomberg reported Jan. 4.

An Association of Foreign Investors in Real Estate survey confirms foreign investors' thirst for U.S. commercial real estate. The survey found that global investor interest in U.S. commercial real estate is at a 10-year high. (See "Foreign Interest in U.S. Real Estate at 10-Year High: AFIRE.")

Stay up-to-date on current market trends! [Click here to view the latest Economic Indicators.](#)

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Hotel Loans Increase as Sector Outperforms Market

Based on promising returns, lenders are freeing up more financing for hotels. More money has been recovered from lodging loans than from debt secured by other types of commercial real estate, Bloomberg reported Nov. 29.

Citing figures from Trepp LLC, Bloomberg reported lenders' losses on non-performing hotel loans were about 53 percent through September 2010, compared with 63 percent for retail property loans, 62 percent for industrial, 61 percent for multifamily and 57 percent for office. The figures exclude loans with losses of 2 percent or less.

The revival in the lodging sector helped delinquencies on U.S. commercial mortgage-backed loans drop for the first time in almost three years in October, Fitch Ratings said in a Nov. 5 note. Hotel delinquencies fell to about 14 percent from 21 percent in September 2010, the largest percentage-point decline ever recorded by Fitch for any property type. The recovery is boosting hotel property values and luring lenders to rework existing loans and seek out new ones.

"Right now is a particularly attractive time to be lending to the hotel sector," Christopher Jordan, head of hospitality banking at Wells Fargo, told Bloomberg. "We prefer lending at the trough to lending at the top. Now you are at the front end of the upswing."

Wells Fargo had about \$6.5 billion of mortgages or construction loans tied to hotels and motels outstanding at the end of September 2010, according to its quarterly filing. That's up from \$6.4 billion a year earlier, Bloomberg reported.

Two reasons why hotels are outperforming other CRE sectors: low interest rates associated with floating-rate debt – which finances many hotels – and hotels' ability to boost rental rates quickly. CRE properties like retail and office tend to sign multi-year leases, while hotels can adjust their rate at any time, Bloomberg reported.

Hotel occupancies in the top 25 U.S. markets jumped to 65 percent through September 2010 from 61 percent in the same period in 2009, and revenue per available room climbed 6.3 percent to \$75.79, according to Smith Travel Research Inc.

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Hope on the Horizon for Hotels, Lenders Say

The demise of commercial mortgage-backed securities in the hotel industry has been greatly exaggerated, according to lenders participating in HotelNewsNow.com's eighth annual International Lodging Finance Council roundtable discussion. Lenders said they definitely have noticed the return of the CMBS structure to the market, HotelNewsNow.com reported Feb. 9.

Bruce Lowrey, managing director of RockBridge Capital's Investment Origination Group, said the hotel market reached its peak in 2006 and 2007 when there were more than \$200 billion a year in CMBS loans. What has followed is a dramatic drop-off: about \$10 billion in CMBS loans were issued in 2010. He said he has seen projections for CMBS loans in 2011 range from \$20 billion to \$70 billion, HotelNewsNow.com reported.

Despite the sunny outlook, there are reasons to tread the CMBS trail cautiously, according to Fred van Overbeek, managing director with Prudential. "A lot of the hotels that went back to lenders during this downturn were hotels that were in the CMBS market, which were underwritten at the top of the market," he said. "With CMBS underwriting, it was prospective. The loan was almost a bad loan the day it was originated, in terms of the amount of leverage that was on it. Sometimes with the CMBS deals, there's no room to renegotiate what you're trying to do. If it needs a fix, that's a much more difficult proposition in terms of negotiating some sort of paydown or restructuring," HotelNewsNow.com reported.

Lowrey said that the cost of capital is clearly an advantage of the securitization lending business, but it has created "a divorce" in the relationship between the borrower and the lender.

As for the rest of the hotel lending landscape, signs of life are beginning to emerge. Bettina Graef, head of hotel properties and structured property finance for Germany-based Aareal Bank, said that the hotel fundamentals in Europe picked up sooner than those in the United States, and there's a little less fluctuation in net operating income and cash flow.

But even with all of the optimism, there still are plenty of distressed assets that need to be addressed. Lowrey said RockBridge's expertise as a fixer of distressed properties has kept it busy for most of the past two years. Mike Armstrong, a principal who specializes in mortgage brokering for HREC, said the company's hotel brokerage side of the business has more than 60 listings – about half of which can be considered distressed assets. He said the other half are private sellers who think now is a good time to put the property on the market, HotelNewsNow.com reported.

SECTION 40-60-30. License requirement; exceptions.

It is unlawful for an individual to assume or use a title, designation, or abbreviation likely to create the impression that the person is a real estate appraiser or to engage in appraisal activity or advertise as an appraiser without a valid license issued by the department. However, nothing in this chapter may be construed to apply to:

(1) a real estate licensee licensed in accordance with Chapter 57 of Title 40 who performs a market analysis or gives an opinion as to the price of real estate on the condition that the market analysis or opinion is not referred to as an appraisal. Before performing a market analysis, the real estate licensee must disclose to the requesting party: "This market analysis may not be used for the purposes of obtaining financing in a federally-related transaction";

(2) a forester registered pursuant to Chapter 27 of Title 48 who appraises or evaluates standing or growing timber or timberland located in this State and issues an appraisal or evaluation on the timber or timberland; however, when an appraisal or evaluation is to be used in a federally-related transaction, the registered forester must be licensed or certified under this chapter if required by federal law.



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www.strglobal.com

Sleep Inn Gaffney Monthly STAR Report

For the Month of: December 2009

STR #: 38099

Date Created: January 21, 2010

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Tab 2 - Monthly Performance at a Glance - My Property vs. Competitive Set

Sleep Inn Gaffney 834 Windslow Ave Gaffney, SC 29341-2623 Phone: (864) 487-5337

STR # 38099 ChainID: SC189 MgtCo: None Owner: None

For the Month of: December 2009 Date Created: January 21, 2010 Monthly Competitive Set Data Includes Subject Property

December 2009

	Occupancy (%)			ADR			RevPAR		
	My Prop	Comp Set	Index	My Prop	Comp Set	Index	My Prop	Comp Set	Index
Current Month	33.7	44.4	76.0	66.99	67.58	99.1	22.60	29.98	75.4
Year To Date	40.4	49.0	82.5	69.75	67.79	102.9	28.16	33.18	84.9
Running 3 Month	40.7	47.5	85.8	67.41	67.05	100.5	27.47	31.84	86.3
Running 12 Month	40.4	49.0	82.5	69.75	67.79	102.9	28.16	33.18	84.9

December 2009 vs. 2008 Percent Change (%)

	Occupancy			ADR			RevPAR		
	My Prop	Comp Set	Index	My Prop	Comp Set	Index	My Prop	Comp Set	Index
Current Month	14.7	12.3	2.1	-7.4	-0.2	-7.2	6.2	12.0	-5.2
Year To Date	7.3	1.0	6.2	-6.3	-3.3	-3.1	0.5	-2.3	2.9
Running 3 Month	32.9	9.9	21.0	-7.4	-6.0	-1.5	23.1	3.3	19.2
Running 12 Month	7.3	1.0	6.2	-6.3	-3.3	-3.1	0.5	-2.3	2.9

SMITH TRAVEL RESEARCH

Tab 3 - STAR Summary - My Property vs. Comp Set and Industry Segments

Sleep Inn Gaffney 834 Windsor Ave Gaffney, SC 29341-2623 Phone: (864) 487-5337

STR # 38099 ChainID: SC189

MgtCo: None Owner: None

For the Month of: December 2009 Date Created: January 21, 2010 Monthly Competitive Set Data Includes Subject Property

Sleep Inn Gaffney
Market: Greenville-Spartanburg, SC
Market Class: Midscale w/o F&B Class
Tract: Spartanburg
Tract Scale: Midscale Chains
Competitive Set: Competitors

Occupancy (%)							
Current Month	% Chg	Year to Date	% Chg	Running 3 Month	% Chg	Running 12 Month	% Chg
33.7	14.7	40.4	7.3	40.7	32.9	40.4	7.3
40.0	-2.5	49.1	-13.0	45.7	-7.3	49.1	-13.0
40.4	-6.0	52.9	-12.7	48.7	-9.7	52.9	-12.7
41.6	3.5	48.0	-9.9	44.6	-5.3	48.0	-9.9
39.3	-2.4	48.6	-11.1	44.7	-9.6	48.6	-11.1
44.4	12.3	49.0	1.0	47.5	9.9	49.0	1.0

Supply			
Month % Chg	YTD % Chg	Run 3 Mon % Chg	Run 12 Mon % Chg
-9.1	27.2	-6.6	27.2
4.9	3.2	4.9	3.2
8.2	4.6	8.2	4.6
4.4	3.2	4.4	3.2
6.7	4.6	6.7	4.6
0.0	0.0	0.0	0.0

Sleep Inn Gaffney
Market: Greenville-Spartanburg, SC
Market Class: Midscale w/o F&B Class
Tract: Spartanburg
Tract Scale: Midscale Chains
Competitive Set: Competitors

Average Daily Rate							
Current Month	% Chg	Year to Date	% Chg	Running 3 Month	% Chg	Running 12 Month	% Chg
66.99	-7.4	69.75	-6.3	67.41	-7.4	69.75	-6.3
60.63	-7.4	67.75	-5.6	65.89	-6.1	67.75	-5.6
71.80	-9.1	78.40	-6.5	76.33	-7.5	78.40	-6.5
56.82	-8.0	62.57	-4.7	59.92	-8.0	62.57	-4.7
75.33	-1.4	78.29	-1.6	76.79	-2.1	78.29	-1.6
67.58	-0.2	67.79	-3.3	67.05	-6.0	67.79	-3.3

Demand			
Month % Chg	YTD % Chg	Run 3 Mon % Chg	Run 12 Mon % Chg
4.2	36.5	24.2	36.5
2.3	-10.2	-2.8	-10.2
1.8	-8.7	-2.3	-8.7
8.1	-7.1	-1.1	-7.1
4.1	-7.0	-3.5	-7.0
12.3	1.0	9.9	1.0

Sleep Inn Gaffney
Market: Greenville-Spartanburg, SC
Market Class: Midscale w/o F&B Class
Tract: Spartanburg
Tract Scale: Midscale Chains
Competitive Set: Competitors

RevPAR							
Current Month	% Chg	Year to Date	% Chg	Running 3 Month	% Chg	Running 12 Month	% Chg
22.60	6.2	28.16	0.5	27.47	23.1	28.16	0.5
24.24	-9.7	33.24	-17.8	30.10	-13.0	33.24	-17.8
29.01	-14.6	41.51	-18.4	37.14	-16.5	41.51	-18.4
23.61	-4.8	30.03	-14.1	26.71	-12.8	30.03	-14.1
29.61	-3.8	38.02	-12.6	34.31	-11.5	38.02	-12.6
29.98	12.0	33.18	-2.3	31.84	3.3	33.18	-2.3

Revenue			
Month % Chg	YTD % Chg	Run 3 Mon % Chg	Run 12 Mon % Chg
-3.5	27.9	15.0	27.9
-5.3	-15.2	-8.7	-15.2
-7.5	-14.6	-9.6	-14.6
-0.6	-11.4	-9.0	-11.4
2.6	-8.6	-5.5	-8.6
12.0	-2.3	3.3	-2.3

Market: Greenville-Spartanburg, SC
Market Class: Midscale w/o F&B Class
Tract: Spartanburg
Tract Scale: Midscale Chains
Competitive Set: Competitors

Census/Sample - Properties & Rooms					
Census		Sample		Sample %	
Properties	Rooms	Properties	Rooms	Rooms	
169	15483	116	12050	77.8	
49	4550	48	4461	98.0	
51	4175	31	2822	67.6	
15	1282	14	1213	94.6	
5	351	5	351	100.0	

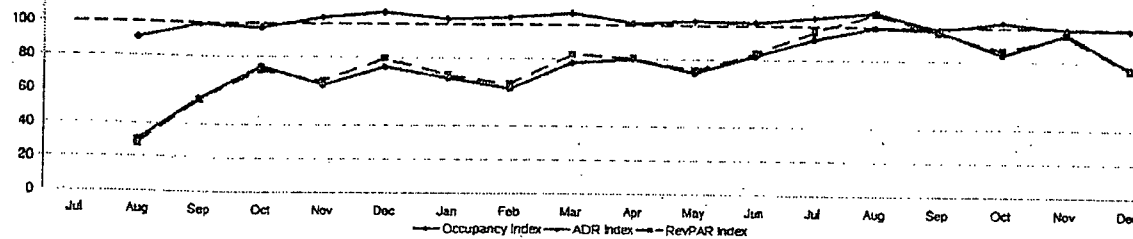
Pipeline			
Market: Greenville-Spartanburg, SC			
Under Construction		Planning	
Properties	Rooms	Properties	Rooms
2	214	2	168
See Help page for pipeline definitions.			

SMITH TRAVEL RESEARCH

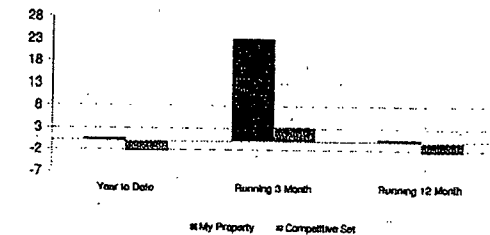
Tab 4 - Competitive Set Report

Sleep Inn Gaffney 834 Windsor Ave Gaffney, SC 29341-2623 Phone: (864) 487-5337
 STR # 38099 ChainID: SC109 MgtCo: None Owner: None
 For the Month of: December 2009 Date Created: January 21, 2010 Monthly Competitive Set Data Includes Subject Property

Monthly Indexes



RevPAR Percent Change



Occupancy (%)																											
2008						2009						Year To Date			Running 3 Month			Running 12 Month									
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	2007	2008	2009	2007	2008	2009	2007	2008	2009
My Property	14.7	22.5	35.6	26.8	29.4	26.1	31.4	45.7	28.7	32.4	42.6	51.2	49.6	44.4	42.5	45.9	33.7	50.8	37.6	40.4	42.9	30.7	40.7	50.8	37.6	40.4	
Competitive Set	57.5	48.4	40.8	48.0	42.1	38.5	36.4	50.5	50.0	49.7	45.0	51.8	40.8	45.3	50.5	47.0	44.4	50.8	48.5	40.0	47.0	43.2	47.5	50.8	48.5	49.0	
Index	30.4	55.1	74.3	63.0	74.4	68.0	82.2	77.4	79.8	72.0	82.2	92.3	89.5	88.2	84.1	86.5	76.0	100.1	77.7	82.5	91.3	70.8	85.6	100.1	77.7	82.5	
Rank	5 of 5	5 of 5	5 of 5	5 of 5	4 of 5	5 of 5	5 of 5	5 of 5	5 of 5	5 of 5	5 of 5	4 of 5	4 of 5	2 of 5	3 of 5	4 of 5	3 of 5	5 of 5	3 of 5	4 of 5	5 of 5	4 of 5	5 of 5	5 of 5	3 of 5	4 of 5	5 of 5
% Chg													-7.1			-26.0	7.3	-19.3			-28.6	32.0	-7.1			-26.0	7.3
My Property	-73.0	-50.7	-20.1	-35.9	-30.4	-41.7	-40.6	-10.9	-33.4				236.5	97.5	19.2	71.5	14.7	-4.5	-4.5	1.0	-7.8	-6.0	9.9	-4.5	-4.5	1.0	
Competitive Set	0.5	-11.0	-19.1	-9.7	-11.3	-1.9	-3.6	-2.2	9.1	-8.9	-13.9	-0.7	-3.5	2.9	10.8	5.3	13.0	12.3	-2.7	-22.4	6.2	-12.4	-22.3	21.0	-2.7	-22.4	6.2
Index	-68.7	-39.0	-11.4	-27.7	-29.1	-30.5	-38.3	-18.3	-26.0				227.1	78.0	13.2	51.8	2.3	4 of 5	5 of 5	2 of 5	4 of 5	5 of 5	1 of 5	4 of 5	5 of 5	2 of 5	
Rank	5 of 5	5 of 5	4 of 5	5 of 5	5 of 5	5 of 5	5 of 5	4 of 5	5 of 5				1 of 5	1 of 5	2 of 5	1 of 5	2 of 5										
ADR													Year To Date			Running 3 Month			Running 12 Month								
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	2007	2008	2009	2007	2008	2009	2007	2008	2009
My Property	80.92	72.30	72.05	74.21	72.38	88.44	87.50	71.50	71.27	72.54	71.25	71.15	71.34	67.61	68.21	63.58	66.99	73.45	74.45	69.75	77.29	72.77	67.41	73.46	74.45	69.76	
Competitive Set	60.46	70.35	73.28	73.85	71.63	67.74	67.38	64.88	68.07	70.49	70.78	69.68	67.80	65.95	68.47	67.10	66.38	67.58	66.00	70.00	67.79	68.11	71.30	67.06	66.00	70.00	67.79
Index	90.8	99.0	97.4	103.6	108.8	103.1	104.1	108.8	101.1	102.5	102.0	104.9	108.2	98.7	103.0	99.4	99.1	109.7	106.2	102.9	113.5	102.1	100.5	109.7	106.2	102.9	
Rank	2 of 5	2 of 5	2 of 5	2 of 5	2 of 5	2 of 5	2 of 5	2 of 5	2 of 5	2 of 5	2 of 5	2 of 5	2 of 5	2 of 5	2 of 5	2 of 5	2 of 5	2 of 5	2 of 5	2 of 5	2 of 5	2 of 5	2 of 5	2 of 5	2 of 5	2 of 5	2 of 5
% Chg													9.5			1.3	-6.3	13.0			-5.8	-7.4	9.5			1.3	-6.3
My Property	-16.2	-8.0	-11.6	-1.7	-3.0	-8.7	-10.8	-9.1	-3.1				11.6	-6.8	-5.9	-11.1	-7.4	7.2	4.8	-3.3	5.7	4.7	-6.0	7.2	4.6	-3.3	
Competitive Set	4.2	3.2	7.3	8.2	8.8	0.6	-0.8	-4.1	2.5	0.8	0.6	-2.4	-8.3	-4.6	-0.1	-7.3	-0.2	2.1	-3.1	-3.1	6.9	-10.1	-1.5	2.1	-3.1	-3.1	
Index	-18.9	-12.4	-16.7	-8.0	-3.6	-8.2	-5.3	-5.2	-5.5				19.1	-0.2	5.7	-4.1	-7.2	2 of 5	3 of 5	5 of 5	2 of 5	5 of 5	4 of 5	2 of 5	3 of 5	5 of 5	
Rank	5 of 5	5 of 5	5 of 5	4 of 5	5 of 5	5 of 5	5 of 5	5 of 5	5 of 5				1 of 5	4 of 5	2 of 5	5 of 5	4 of 5										
RevPAR													Year To Date			Running 3 Month			Running 12 Month								
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	2007	2008	2009	2007	2008	2009	2007	2008	2009
My Property	9.42	16.32	25.68	19.67	21.20	18.14	21.24	32.68	28.27	33.48	30.27	36.45	35.36	30.05	29.41	30.31	22.60	37.34	28.02	28.16	33.15	28.31	27.47	37.34	28.02	28.16	
Competitive Set	38.85	34.08	29.91	35.47	30.18	25.77	25.87	32.79	36.54	35.06	31.82	36.10	37.62	32.67	31.00	33.04	31.59	34.00	33.98	30.18	31.99	30.81	31.84	34.00	33.98	33.18	
Index	27.5	54.6	72.4	65.9	79.5	70.1	64.8	89.6	80.9	107.6	83.8	96.9	107.6	96.9	86.6	85.0	75.4	100.8	82.5	84.9	103.6	72.4	86.3	100.8	82.5	84.9	
Rank	5 of 5	4 of 5	2 of 5	3 of 5	3 of 5	4 of 5	5 of 5	2 of 5	2 of 5	2 of 5	3 of 5	2 of 5	2 of 5	2 of 5	2 of 5	2 of 5	3 of 5	2 of 5	2 of 5	2 of 5	2 of 5	2 of 5	2 of 5	2 of 5	2 of 5	2 of 5	
% Chg													1.6			-25.0	0.5	-8.8			-32.7	23.1	1.6			-25.0	0.5
My Property	-77.4	-63.7	-28.0	-37.0	-32.5	-47.4	-47.1	-19.0	-35.4				275.6	84.1	14.5	52.5	8.2	2.4	-0.1	-2.3	-2.6	-3.7	3.2	2.4	-0.1	-2.3	
Competitive Set	4.7	-8.1	-13.3	-4.2	-1.2	-4.2	-7.9	4.6	-7.8	-13.4	-0.2	-5.8	-7.5	3.9	-4.3	4.7	12.0	-0.7	-24.8	2.9	-4.4	-30.1	19.2	-0.7	-24.0	2.9	
Index	-75.4	-46.6	-28.2	-33.5	-31.6	-45.1	-42.5	-22.5	-30.1				289.4	77.6	19.7	45.7	-5.2	3 of 5	5 of 5	3 of 5	4 of 5	5 of 5	1 of 5	3 of 5	5 of 5	2 of 5	
Rank	5 of 5	5 of 5	5 of 5	5 of 5	5 of 5	6 of 5	5 of 5	6 of 5	5 of 5				1 of 5	1 of 5	2 of 5	1 of 5	5 of 5										

Tab 5 - Response Report

Sleep Inn Gaffney 834 Windslow Ave Gaffney, SC 29341-2623 Phone: (864) 487-5337
 STR # 38099 ChainID: SC189 MgtCo: None Owner: None
 For the Month of: December 2009 Date Created: January 21, 2010

This Year

Dec 12th - First Day of Hanukkah
 Dec 24th - Christmas Eve
 Dec 25th - Christmas
 Dec 28th - First Day of Kwanzaa
 Dec 31st - New Year's Eve

Last Year

Dec 22nd - First Day of Hanukkah
 Dec 24th - Christmas Eve
 Dec 25th - Christmas
 Dec 26th - First Day of Kwanzaa
 Dec 31st - New Year's Eve

December 2009 (This Year)

Sun	Mon	Tue	Wed	Thu	Fri	Sat
		1	2	3	4	5
6	7	8	9	10	11	12
13	14	15	16	17	18	19
20	21	22	23	24	25	26
27	28	29	30	31		

December 2008 (Last Year)

Sun	Mon	Tue	Wed	Thu	Fri	Sat
	1	2	3	4	5	6
7	8	9	10	11	12	13
14	15	16	17	18	19	20
21	22	23	24	25	26	27
28	29	30	31			

STR#	Name	City, State	Zip	Phone	Rooms	Open Date
38099	Sleep Inn Gaffney	Gaffney, SC	29341-2623	(864) 487-5337	60	199904
23057	Super 8 Gaffney	Gaffney, SC	29341-1256	(864) 489-1699	60	198609
25813	Quality Inn Gaffney	Gaffney, SC	29341-2712	(864) 487-4200	83	198611
38088	Red Roof Inn Gaffney	Gaffney, SC	29341-2626	(864) 206-0200	63	199904
39236	Hampton Inn Gaffney	Gaffney, SC	29341-3314	(864) 206-0011	85	199911
					351	

2008												2009											
Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
●	●	●	●	●	●	●	●	●	●	●	●	○	○	○	○	○	○	○	○	○	○	○	○
●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●

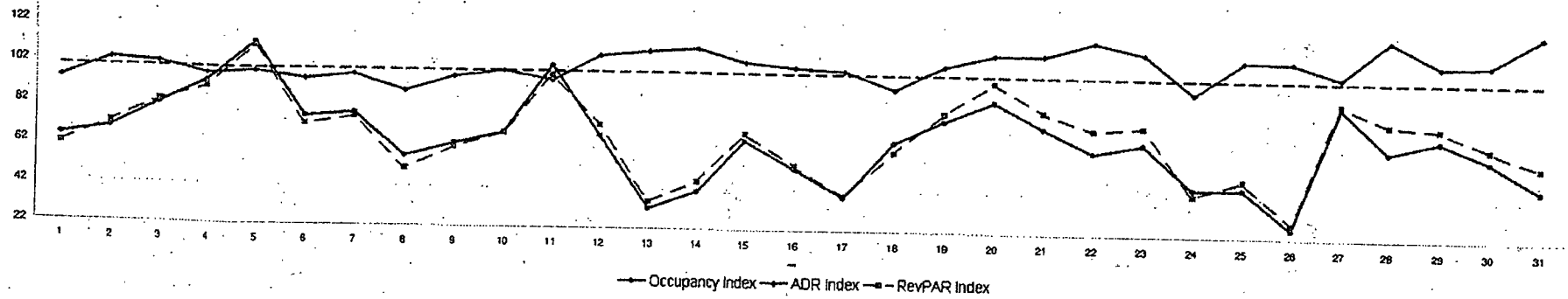
Data received:

- = Monthly Only
- = Monthly & Daily

Tab 6 - Daily Data for the Month

Sleep Inn Gaffney 804 Windsor Ave Gaffney, SC 29341-2622 Phone: (864) 487-5337
 STR # 38099 ChainID: SC188 MgtCo: Nono Owner: Nono
 For the Month of: December 2009 Date Created: January 21, 2010 Daily Competitive Set Data Excludes Subject Property

Daily Indexes for the Month of December



	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th
Occupancy (%)	December																														
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31
My Property	36.7	40.0	36.7	38.3	51.7	36.7	48.3	36.7	38.3	43.3	51.7	36.7	13.3	21.7	31.7	25.0	18.3	31.7	25.0	26.7	31.7	25.0	23.3	8.3	10.0	8.3	23.3	26.7	35.0	25.0	11.7
Competitive Set	56.2	57.5	44.9	41.1	45.9	47.9	61.0	64.4	60.3	62.7	50.3	53.8	41.1	52.7	47.6	47.3	48.0	47.6	32.2	30.5	42.5	38.7	34.6	18.2	21.8	31.2	20.7	40.6	40.0	40.4	24.7
Index	65.3	68.5	81.7	80.9	112.8	78.5	78.4	57.0	60.6	66.1	102.6	68.2	32.4	41.1	68.6	82.9	29.1	66.5	77.7	87.5	74.6	62.9	67.5	45.9	46.3	26.7	67.4	85.4	71.5	61.9	47.3
% Chg																															
My Property	-8.3	-7.7	0.0	54.3	121.4	63.3	61.3	-6.3	53.3	30.0	19.2	-26.7	-23.6	-61.9	-20.8	-37.5	-50.0	11.8	0.0	100.0	111.1	-21.1	180.0	0.0	-57.1	-77.3	100.0	-11.1	40.0	160.0	75.0
Competitive Set	-2.4	26.3	13.9	-8.8	-1.5	100.0	26.8	32.4	21.4	28.9	19.5	42.7	68.0	8.9	2.2	-5.5	-4.0	17.8	-24.8	6.0	26.5	58.9	134.9	-17.3	-34.4	-22.9	-1.3	10.7	47.4	40.4	14.3
Index	-6.1	-26.0	-12.2	82.1	124.7	-0.3	43.9	-30.8	76.3	0.8	-0.7	-48.6	-78.5	-59.0	-27.5	-33.9	-47.4	-5.1	23.0	88.6	66.6	-50.3	18.2	20.6	-34.7	-70.5	103.6	-23.8	-5.9	67.4	53.1
ADR	December																														
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31
My Property	60.55	68.48	69.73	61.74	65.42	56.14	65.38	65.97	65.43	67.00	64.00	72.27	71.13	70.36	73.21	73.07	71.81	69.37	67.19	73.44	77.29	77.73	78.00	68.00	68.17	78.50	71.29	75.38	74.33	78.07	76.43
Competitive Set	64.52	64.10	66.30	63.79	66.41	62.20	67.10	73.05	67.57	67.11	68.04	67.00	64.47	70.86	71.38	70.86	70.69	74.85	64.15	66.35	66.76	66.03	69.39	73.02	63.21	68.74	70.01	64.82	68.65	71.32	61.56
Index	103.8	103.7	102.1	95.6	98.6	94.9	97.4	88.4	88.6	80.8	66.4	107.0	110.3	112.0	106.4	105.1	101.7	92.9	104.7	110.7	110.6	117.7	112.4	93.1	100.4	108.3	101.8	120.9	106.3	109.2	124.2
% Chg																															
My Property	-19.5	-6.6	-14.4	14.2	3.6	-20.2	-8.0	-8.4	-8.9	-6.0	-10.1	0.2	-4.8	5.9	7.4	-5.0	-7.9	8.6	-7.3	7.8	7.9	3.6	5.1	-12.1	-3.1	8.2	-6.5	13.0	5.7	28.6	15.4
Competitive Set	-12.2	-7.6	1.9	4.3	5.9	0.3	-7.8	2.9	-3.3	0.1	3.1	5.4	13.4	8.9	11.0	5.0	10.8	14.8	-4.1	-6.7	4.4	5.2	13.4	9.1	-1.0	2.2	-0.1	-4.4	3.5	9.3	-11.8
Index	-8.3	0.0	-16.3	9.5	-2.1	-20.4	-0.8	-10.9	-5.0	-6.1	-21.5	-4.9	-20.4	0.6	-4.0	-10.3	-17.0	-7.1	-3.3	15.6	3.3	-1.6	-7.9	-12.2	-0.1	5.9	-6.3	18.1	2.1	15.6	30.9
RevPAR	December																														
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31
My Property	22.20	28.56	25.57	23.67	33.20	21.58	31.80	23.90	25.06	30.03	33.33	26.50	9.48	17.20	23.82	18.27	13.18	21.07	16.78	19.59	24.47	19.43	18.20	5.67	6.92	9.35	16.63	20.90	25.02	19.52	8.92
Competitive Set	38.24	35.86	30.84	26.22	30.48	29.87	41.36	47.03	49.79	42.06	34.28	36.02	26.49	37.37	33.97	33.49	33.17	35.64	20.65	20.29	28.02	26.28	24.00	13.28	13.64	21.73	18.70	20.42	10.62	28.80	15.18
Index	61.3	72.1	83.4	80.3	110.9	72.5	76.4	60.0	61.6	68.9	67.9	73.5	35.8	46.0	70.1	54.5	39.7	61.8	61.3	98.8	87.6	74.1	75.8	42.8	60.7	29.2	88.9	78.1	77.4	67.5	55.7
% Chg																															
My Property	-26.2	-13.6	-14.4	87.6	129.4	-48.3	65.7	-16.0	38.2	22.2	-3.5	-28.5	-67.2	-49.0	-14.9	-48.6	-64.0	10.2	-7.3	115.6	127.0	-18.2	194.3	-12.1	-56.5	-75.4	164.7	0.4	48.0	218.5	101.9
Competitive Set	-14.3	16.9	15.1	-6.9	4.3	100.6	16.9	30.2	17.4	28.0	23.2	60.4	91.7	13.3	14.4	0.1	5.5	35.2	-27.9	-1.1	32.1	67.2	168.3	-17.1	-35.1	-21.2	-1.4	11.6	52.7	63.3	0.8
Index	-13.9	-29.2	-25.8	88.3	120.0	-27.1	41.8	-36.3	17.7	-6.3	-21.7	-51.1	-82.9	-55.0	-25.6	-49.7	-58.4	-11.0	28.6	118.0	72.3	-51.1	10.6	8.0	-34.0	-68.8	188.5	-10.0	-3.1	60.8	100.4

Tab 7 - Day of Week and Weekday/Weekend Report

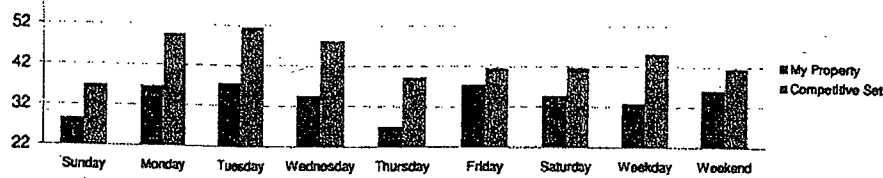
Steep Inn Gaffney 834 Windsor Ave Gaffney, SC 29341-2823 Phone: (884) 487-8337

STR # 38099 ChainID: SC188

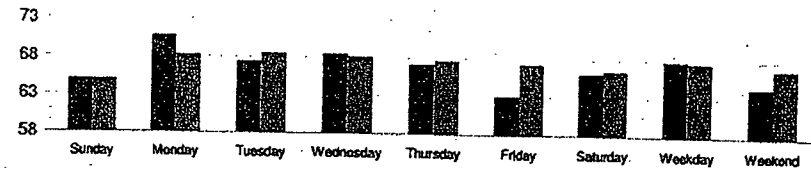
MgtCo: None Owner: None

For the Month of: December 2009 Date Created: January 21, 2010 Monthly Competitive Set Data Includes Subject Property

Current Month Occupancy



Current Month ADR



		Occupancy (%)						Average Daily Rate						RevPAR					
		My Property		Competitive Set		Index		My Property		Competitive Set		Index		My Property		Competitive Set		Index	
Day of Week	Time Period	% Chg	% Chg	% Chg	% Chg	% Chg	% Chg	% Chg	% Chg	% Chg	% Chg	% Chg	% Chg	% Chg	% Chg	% Chg	% Chg	% Chg	% Chg
Sunday	Current Month	28.5	44.8	37.0	41.2	77.1	2.5	65.02	-13.3	64.98	-2.5	100.1	-11.1	18.54	25.5	24.04	37.6	77.1	-8.8
	Year To Date	28.2	23.6	36.6	15.5	77.2	7.0	69.90	-5.4	65.60	-3.8	105.6	-1.7	19.73	16.9	24.00	11.1	82.2	-5.2
	Running 3 Month	31.8	75.2	36.8	34.8	86.4	30.2	66.78	-9.0	64.25	-9.2	103.9	0.2	21.25	59.4	23.68	22.2	88.8	30.4
	Running 12 Month	28.2	23.6	36.6	15.5	77.2	7.0	69.90	-5.4	65.60	-3.8	106.6	-1.7	19.73	16.9	24.00	11.1	82.2	5.2
Monday	Current Month	36.6	16.2	48.7	9.1	73.7	6.5	70.80	-2.9	68.34	-2.5	103.6	-0.4	25.81	12.7	33.95	6.3	78.3	6.1
	Year To Date	44.4	13.9	51.7	4.7	85.8	8.3	69.44	-8.8	67.99	-5.7	102.1	-1.1	30.83	5.7	35.17	-1.3	87.7	7.1
	Running 3 Month	38.3	28.4	50.1	8.7	76.4	18.1	68.09	-7.8	66.81	-9.1	101.9	1.4	26.06	18.4	33.48	-1.2	77.9	19.8
	Running 12 Month	44.4	13.9	51.7	4.7	85.8	8.3	69.44	-8.8	67.99	-5.7	102.1	-1.1	30.83	5.7	35.17	-1.3	87.7	7.1
Tuesday	Current Month	37.8	5.9	51.6	19.7	73.0	-11.5	67.48	-6.3	68.58	-0.4	98.4	-5.9	25.40	-0.7	35.39	19.2	71.8	-16.7
	Year To Date	43.9	-8.4	56.1	0.2	78.3	-6.5	68.95	-7.3	68.94	-4.3	99.9	-8.1	30.25	-13.2	38.67	-4.1	78.2	-9.5
	Running 3 Month	40.1	12.6	53.9	10.3	74.4	1.9	68.62	-8.1	68.24	-7.2	100.6	-1.0	27.51	3.3	36.77	2.4	74.8	0.9
	Running 12 Month	43.9	-8.4	56.1	0.2	78.3	-6.5	68.95	-7.3	68.94	-4.3	99.9	-8.1	30.25	-13.2	38.67	-4.1	78.2	-9.5
Wednesday	Current Month	34.6	35.8	48.1	29.6	71.9	4.8	68.48	-5.3	68.14	0.0	100.5	-5.3	23.69	28.6	32.80	29.6	72.2	-0.8
	Year To Date	44.8	7.4	54.9	-0.3	81.7	7.8	69.19	-4.9	68.92	-2.8	100.4	-2.2	31.01	2.2	37.82	-3.1	82.0	5.5
	Running 3 Month	38.7	27.5	49.4	7.9	78.3	18.2	68.61	-6.3	68.11	-5.2	100.7	-1.2	26.54	19.5	33.64	2.2	78.9	16.8
	Running 12 Month	44.8	7.4	54.9	-0.3	81.7	7.8	69.19	-4.9	68.92	-2.8	100.4	-2.2	31.01	2.2	37.82	-3.1	82.0	5.5
Thursday	Current Month	27.0	-6.8	39.3	-1.3	68.7	-5.4	67.16	-12.5	67.78	-0.6	99.1	-11.9	18.13	-18.3	26.85	-2.0	68.0	-16.6
	Year To Date	37.0	-1.0	48.3	-4.4	76.5	3.6	70.02	-15.8	67.97	-4.2	103.0	-12.1	25.89	-16.7	32.85	-8.5	78.8	-3.0
	Running 3 Month	38.7	47.9	45.0	9.6	85.9	35.0	68.27	-9.4	67.97	-5.1	100.4	-4.5	26.41	33.9	30.61	4.0	86.3	28.8
	Running 12 Month	37.0	-1.0	48.3	-4.4	76.5	3.6	70.02	-15.8	67.97	-4.2	103.0	-12.1	25.89	-16.7	32.85	-8.5	78.8	-8.0
Friday	Current Month	37.5	26.2	41.6	3.1	90.2	22.4	63.08	-9.0	67.38	4.3	93.6	-12.7	23.68	14.9	28.05	7.5	84.4	6.9
	Year To Date	42.6	11.8	48.1	-2.2	88.8	14.4	70.12	-2.4	67.39	-0.7	104.0	-1.7	29.87	9.1	32.38	-2.9	92.2	12.4
	Running 3 Month	51.6	55.8	48.3	4.8	106.8	48.6	64.45	-8.3	66.65	-3.5	96.7	-4.9	33.27	42.9	32.22	1.1	103.3	41.3
	Running 12 Month	42.6	11.8	48.1	-2.2	88.8	14.4	70.12	-2.4	67.39	-0.7	104.0	-1.7	29.87	9.1	32.38	-2.9	92.2	12.4
Saturday	Current Month	34.7	2.2	41.7	-2.0	83.2	4.3	66.17	-5.2	66.57	1.0	99.4	-6.1	22.96	-3.0	27.76	-1.0	82.7	-2.1
	Year To Date	41.7	10.6	47.0	-0.1	88.8	10.7	70.92	0.0	66.78	-0.8	106.2	0.8	28.59	10.6	31.39	-0.9	84.3	11.6
	Running 3 Month	48.2	11.8	49.0	4.3	94.2	7.1	67.80	-3.2	66.49	-2.8	102.0	-0.4	31.32	8.1	32.60	1.4	88.1	6.7
	Running 12 Month	41.7	10.6	47.0	-0.1	88.8	10.7	70.92	0.0	66.78	-0.8	106.2	0.8	28.59	10.6	31.39	-0.9	84.3	11.6
Weekday/Weekend																			
Weekday (Sun-Thu)	Current Month	32.9	15.2	45.3	16.7	72.6	-1.3	67.92	-7.6	67.77	-1.3	100.2	-6.4	22.34	6.5	30.70	15.1	72.8	-7.5
	Year To Date	39.7	5.7	49.5	1.9	80.1	3.7	69.43	-8.2	68.05	-4.2	102.0	-4.2	27.53	-3.0	33.70	-2.4	81.7	-0.6
	Running 3 Month	37.5	33.8	47.0	12.2	79.8	19.2	68.13	-8.1	67.24	-7.1	101.3	-1.0	25.57	22.9	31.61	4.2	80.9	17.9
	Running 12 Month	39.7	5.7	49.5	1.9	80.1	3.7	69.43	-8.2	68.05	-4.2	102.0	-4.2	27.53	-3.0	33.70	-2.4	81.7	-0.6
Weekend (Fri-Sat)	Current Month	36.1	13.4	41.7	0.5	86.7	12.9	64.56	-7.2	66.97	2.6	96.4	-9.5	23.32	5.3	27.91	3.1	83.6	2.1
	Year To Date	42.2	11.2	47.5	-1.2	88.7	12.5	70.51	-1.2	67.09	-0.8	105.1	-0.5	26.73	9.9	31.89	-1.9	83.2	12.0
	Running 3 Month	48.9	31.3	48.7	4.6	100.5	25.6	66.03	-5.9	66.57	-3.2	99.2	-2.8	32.29	23.6	32.41	1.2	99.6	22.1
	Running 12 Month	42.2	11.2	47.5	-1.2	88.7	12.5	70.51	-1.2	67.09	-0.8	105.1	-0.5	26.73	9.9	31.89	-1.9	83.2	12.0
Total	Current Month	33.7	14.7	44.4	12.3	76.0	2.1	66.99	-7.4	67.58	-0.2	99.1	-7.2	22.60	6.2	29.98	12.0	75.4	-5.2
	Year To Date	40.4	7.3	49.0	1.0	82.5	6.2	69.75	-6.3	67.79	-3.3	102.9	-3.1	28.16	0.5	33.18	-2.3	84.9	2.9
	Running 3 Month	40.7	32.9	47.5	9.9	85.8	21.0	67.41	-7.4	67.05	-6.0	100.5	-1.5	27.47	23.1	31.84	3.3	86.3	19.2
	Running 12 Month	40.4	7.3	49.0	1.0	82.5	6.2	69.75	-6.3	67.79	-3.3	102.9	-3.1	28.16	0.5	33.18	-2.3	84.9	2.9

Tab 8 - Help

Definitions

- ADR (Average Daily Rate)** - Room revenue divided by rooms sold
- Competitive (Comp) Set** - A peer group of competitive hotels selected by hotel management to benchmark the subject property's performance.
- Contract** - Rooms sold/revenue from bookings sold at rates stipulated by contracts including airline crews and permanent guests.
- Exchange Rate** - The factor used to convert revenue from US Dollars to the local currency. Reports display the monthly exchange rates (the rate on the last day of the month) and the daily exchange rates on the Daily by Month pages. STR obtains exchange rate data from Oanda.com. Any aggregated number in the report (YTD, Running 3 month, Running 12 month) uses the exchange rate of each relative month when calculating the data.
- Food & Beverage Revenue (F&B)** - Revenue derived from food and beverage sales.
- Group** - Rooms sold/revenue from bookings sold simultaneously in blocks of ten (10) or more.
- Index (Occupancy, ADR, RevPar)** - Property performance divided by competitive set performance multiplied by 100.
- Market Class** - Class is an industry categorization which includes chain-affiliated and independent hotels. The class for a chain-affiliated hotel is the same as its chain scale. An independent hotel is assigned a class based on its ADR, relative to that of the chain hotels in their geographic proximity. There are six (6) class groups: Luxury, Upper Upscale, Upscale, Midscale with F&B, Midscale without F&B, and Economy.
- Market Class Combined (or Collapsed)** - If a single class segment is insufficient for reporting, classes are combined. There are three combined class segments: Luxury and Upper Upscale, Upscale and Midscale w/ F&B, and Midscale w/o F&B and Economy.
- Market Scale** - Hotels located in the subject property's market and classified in the subject property's STR chain scale segment. There are seven (7) scale groups: Luxury, Upper Upscale, Upscale, Midscale with F&B, Midscale without F&B, Economy and Independent.
- Market Scale (Collapsed)** - Hotels located in the subject property's market and classified in the subject property's STR chain scale segment. There are two (2) market scale (collapsed) groups: Upscale (includes Luxury, Upper Upscale, Upscale, Independent) and Midscale/Economy (includes Midscale with F&B, Midscale without F&B, Economy).
- MTD (Month to Date)** - If a month ends during the current week, the MTD number would represent the month that ended.
- Occupancy** - Rooms sold divided by rooms available multiplied by 100.
- Other Revenue** - All hotel revenue other than room and food and beverage revenue.
- Percent Change (% Chg)** - Amount of growth - up, down or flat - this period versus same period last year (day, week, running 28 days, running month-to-date). Calculated as $((TY-LY)/LY)*100$.
- Percent Change Rank (Occupancy, ADR, RevPar)** - The percent change for the property is compared to the percent change of each hotel in the comp set.
- Rank (Occupancy, ADR, RevPar)** - Property performance ranked versus hotels in the competitive set (e.g. a "3 of 6" ADR ranking means the subject hotel's absolute ADR is third highest of the six competitors).
- RevPAR (Revenue per Available Room)** - Room revenue divided by rooms available
- Room Revenue** - Revenue derived from guestroom rental.
- Segmented Data** - Rooms sold and revenue data broken down by Transient, Group, and Contract.
- Tract Scale** - Hotels located in the subject property's tract and classified in the subject property's STR chain scale segment. There are four (4) tract scale groups: Upscale (includes Luxury, Upper Upscale, Upscale), Midscale (includes Midscale with F&B, Midscale without F&B), Economy and Independent.
- Transient** - Rooms sold/revenue from guests with reservations at Rack, Corporate, Corporate Negotiated, Package, Government or foreign traveler rates.
- Planning** - The project will go out for bids, construction will start within 4 months, or an architect/engineer has been selected for the project and plans are underway.
- Under Construction** - Ground has been broken or the owner is finalizing bids on the prime (general) contract.

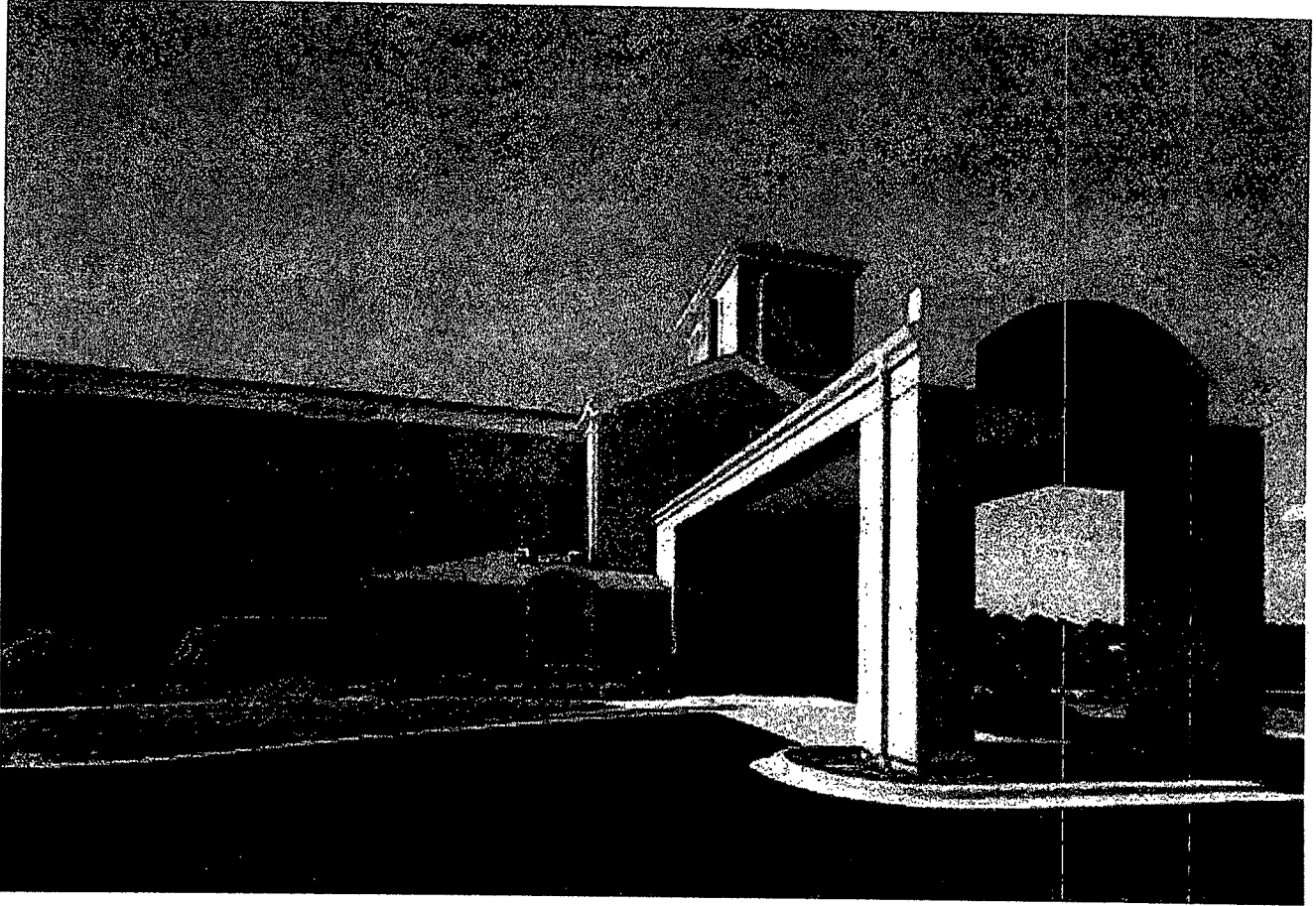
FAQ

- How is my hotel performing versus competition?**
The monthly STAR report provides timely occupancy, average room rate, revenue per available room benchmarking of your hotel's performance versus your own selected competitors and an STR defined industry segment.
- Is my hotel's data included in the competitive numbers?**
It depends on your preference. Check the summary page to see if your hotel's data is included or excluded in the competitive set numbers.
- How does STR determine currency and exchange rates?**
Currency is user-defined and is displayed at the top of the report. STR obtains exchange rate data from Oanda.com.
- How are percentage changes computed?**
Hotel and competitive performance changes are measured against same period prior year.
- Why do my percentage change numbers have such a large range?**
The data for this year vs. the same period last year may vary greatly. Consider if you sold 2284 rooms this year vs. 743 last year, the percent change would be 208.7% $((2284-743)/743)*100$.
- What is an Index?**
An index is an easy way to compare your hotel's performance versus competition. An index of 100 or higher means your hotel's absolute performance is the same or better than competition.
- What does the "Rank" information mean?**
Your hotel's performance is ranked against the other properties in your competitive set. If your hotel's RevPAR rank is "2 of 6", that means your hotel's RevPAR was second highest of the six hotels in your competitive set.
- What does "running 28 days" mean?**
The most recent 28 days historical performance. The running 28 day numbers are based on the most current 28-day period, ending with the last day included in the weekly report.
- What does "run MTD" mean?**
Running month-to-date. The MTD numbers are based on a calendar month and include all days of the same month, through the most recent calendar day included in the report. If the most recent week's reporting includes data in two calendar months, the MTD numbers only include data from the recently ended month.
- What if there are blanks in my competitive set numbers?**
Your competitive set did not include sufficient data for reporting. A minimum of three (3) hotels excluding the subject property must report data in order for STR to provide competitive set performance.
- What if there are blanks in my competitive set percentage change?**
Your competitive set did not include sufficient data for reporting prior year data.
- What is "Pipeline" on the Summary Tab?**
Pipeline data is generated based on the STR/TWR/Dodge Construction Supply Pipeline database and details hotels that are being planned but not yet open. Every month STR receives data feeds from its hotel clients and Dodge Construction to create the definitive database for hotels in planning, pre-planning or under construction. The data is widely used by investment banks, development groups and hotel owners to estimate future nationwide supply growth and track supply changes in the market.
- Who can I contact if I have more questions?**
Check out the glossary and FAQ at www.smithtravelresearch.com or e-mail info@smithtravelresearch.com.

SALE COMPARABLE ONE

NAME/LOCATION	Sleep Inn 125 Turnersburg Road Statesville, North Carolina 28677
RECORDED	Deed Book 1930; Page 2210
GRANTOR	Hotel Systems, Inc.
GRANTEE	Ravi & Rimple, LLC
SALE DATE	April 1, 2008
SALE PRICE	\$3,150,000
PROPERTY DESCRIPTION	Three-story interior corridor limited service hotel built in 1995. The building is wood frame/stucco construction with indoor pool, fitness center and meeting rooms. The property is located on 2.02 acres in the northwest quadrant of I-40 and US 21 (Exit 151 of I-40), north of Statesville and west of I-77.
NUMBER ROOMS	70
<u>FINANCIAL ANALYSIS</u>	
PRICE PER ROOM	\$45,000
GROSS ROOM INCOME	\$792,050
MULTIPLE (GRIM)	3.98
EFFECTIVE GROSS INCOME	\$817,600
MULTIPLE (EGIM)	3.85
EXPENSES	\$539,616
EXPENSE RATIO	66.0%
NET INCOME	\$277,984
NET INCOME RATIO / EGI	34.0%
NET INCOME / ROOM	\$3,971
OVERALL CAPITALIZATION RATE	8.82%
COMMENTS	This location, exit 151 of i-40, is heavily developed with typical highway business uses. Cash-to-seller. 2008 ADR - \$62; 2008 occupancy - 50%.

SALE COMPARABLE ONE CONTINUED



SALE COMPARABLE TWO

NAME/LOCATION	Holiday Inn Express 1570 Asheville Highway Brevard, North Carolina 28712
RECORDED	Deed Book 454; Page 703
GRANTOR	KSS Holdings, LLC
GRANTEE	Brevard Holding Properties, LLC
SALE DATE	April 14, 2008
SALE PRICE	\$4,425,000
EFFECTIVE PRICE	\$5,025,000*
PROPERTY DESCRIPTION	Three-story interior corridor limited service hotel built in 1999. The property is masonry construction with outdoor pool, fitness center, meeting rooms and 15 suites. Located on 1.98 acres on east side of Asheville Highway (US 64) three miles north of downtown Brevard.
NUMBER ROOMS	63
<u>FINANCIAL ANALYSIS</u>	
PRICE PER ROOM	\$79,762*
GROSS ROOM INCOME	\$1,248,399
MULTIPLE (GRIM)	4.03*
EFFECTIVE GROSS INCOME	\$1,276,453
MULTIPLE (EGIM)	3.94*
EXPENSES	\$880,753
EXPENSE RATIO	69.00%
NET INCOME	\$395,700
NET INCOME RATIO / EGI	31.00%
NET INCOME / ROOM	\$6,281
OVERALL CAPITALIZATION RATE	7.87%*
COMMENTS	*A \$600,000 renovation, mandated by IHG, the franchisor, was completed by buyer. All rates and ratios are calculated based on the effective price of \$5,025,000. Located 18 miles south of Asheville airport.

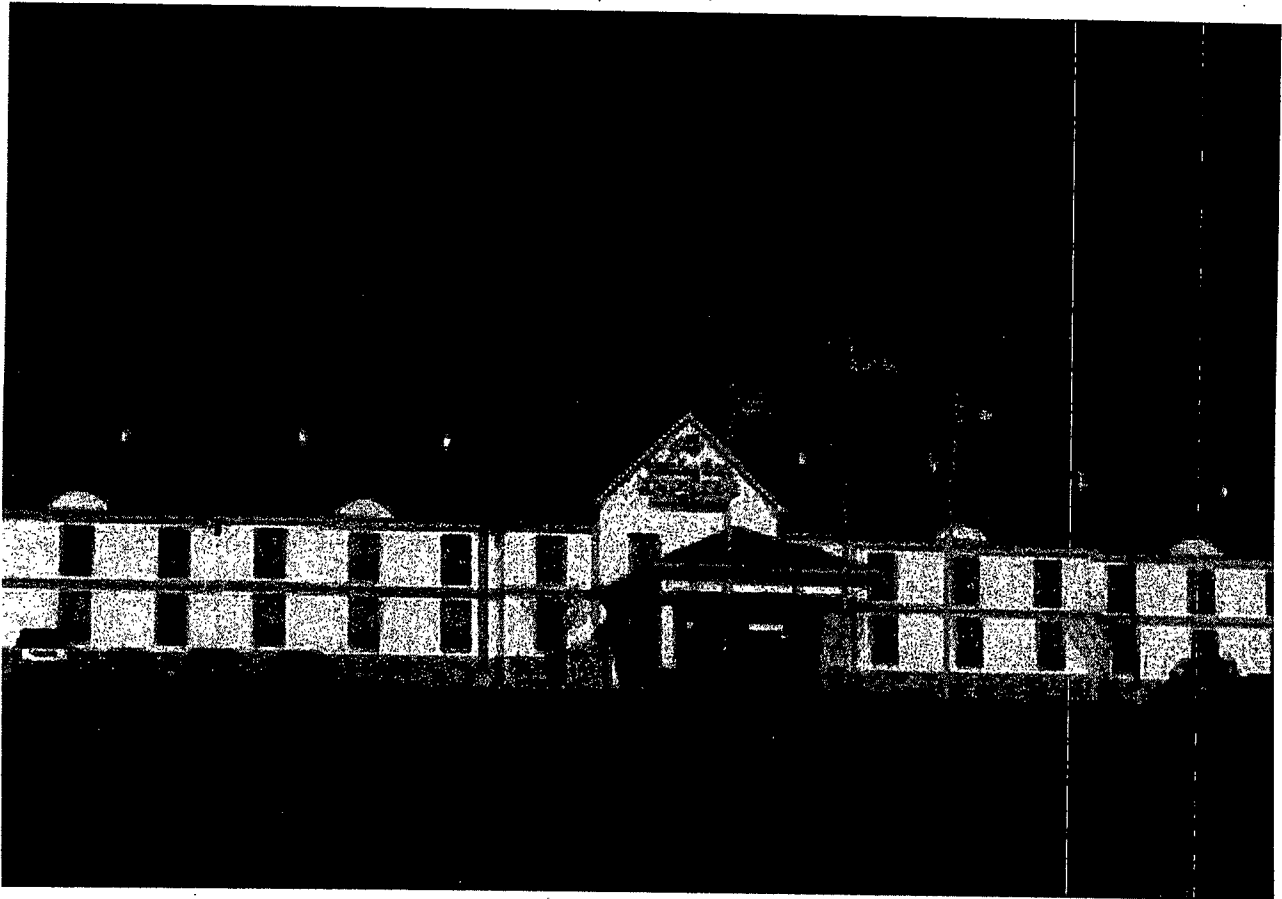
SALE COMPARABLE TWO CONTINUED



SALE COMPARABLE THREE

NAME/LOCATION	Holiday Inn Express Hotel and Suites 275 Frontage Road Duncan, South Carolina 29334
RECORDED	Deed Book 91-F; Page 437
GRANTOR	Duncan Investments, Inc.
GRANTEE	Vipin Patel and Bhavana Patel
SALE DATE	April 29, 2008
SALE PRICE	\$5,700,000
PROPERTY DESCRIPTION	Three-story interior corridor limited service hotel built in 2002. The property is masonry construction with outdoor pool and fitness center, 19 suites.
NUMBER ROOMS	75
<u>FINANCIAL ANALYSIS</u>	
PRICE PER ROOM	\$76,000
GROSS ROOM INCOME	\$1,387,912
MULTIPLE (GRIM)	4.11
EFFECTIVE GROSS INCOME	\$1,407,912
MULTIPLE (EGIM)	4.05
EXPENSES	\$929,222
EXPENSE RATIO	66.00%
NET INCOME	\$478,690
NET INCOME RATIO / EGI	34.00%
NET INCOME / ROOM	\$6,383
OVERALL CAPITALIZATION RATE	8.40%
COMMENTS	Sale involved cash and assumption of existing first mortgage. Buyer would not disclose terms, but did not consider existing loan to be favorable. 2008 occupancy was 65% and ADR was \$78.

SALE COMPARABLE THREE CONTINUED



SALE COMPARABLE FOUR

PROPERTY IDENTIFICATION

NAME/LOCATION	Holiday Inn Express 2681 Dry Pocket Rd Greer, South Carolina 29650
RECORDED	Deed Book 2308 Page 1473
GRANTOR	Parkway Hotel, LLC
GRANTEE	S Wang Enterprises, LLC
SALE DATE	January 01, 2008
SALE PRICE	\$5,600,000.00
PROPERTY RIGHTS	Fee Simple
FINANCING	Cash to seller
VERIFICATION	Third party, Confirmed by MBR
PROPERTY DESCRIPTION	Three-story interior corridor limited service hotel built in 1996. The property is masonry and stucco construction with indoor pool, whirlpool/Jacuzzi, exercise/fitness center, and internet/business center.
TAX ID	0533.02-01-019.10
LAND DATA	2.200 Acres or 95,832 SF
NUMBER ROOMS	82

FINANCIAL ANALYSIS

AVERAGE DAILY RATE	\$79.00
AVERAGE OCCUPANCY RATE	60.27%
ANNUAL GROSS ROOM REVENUE	\$1,425,066
TOTAL REVENUE	\$1,425,066
GROSS EXPENSES	\$940,544 (\$66)
NET OPERATING INCOME	\$484,522 (\$5,909/ROOM)

SALE COMPARABLE FOUR (CONT)

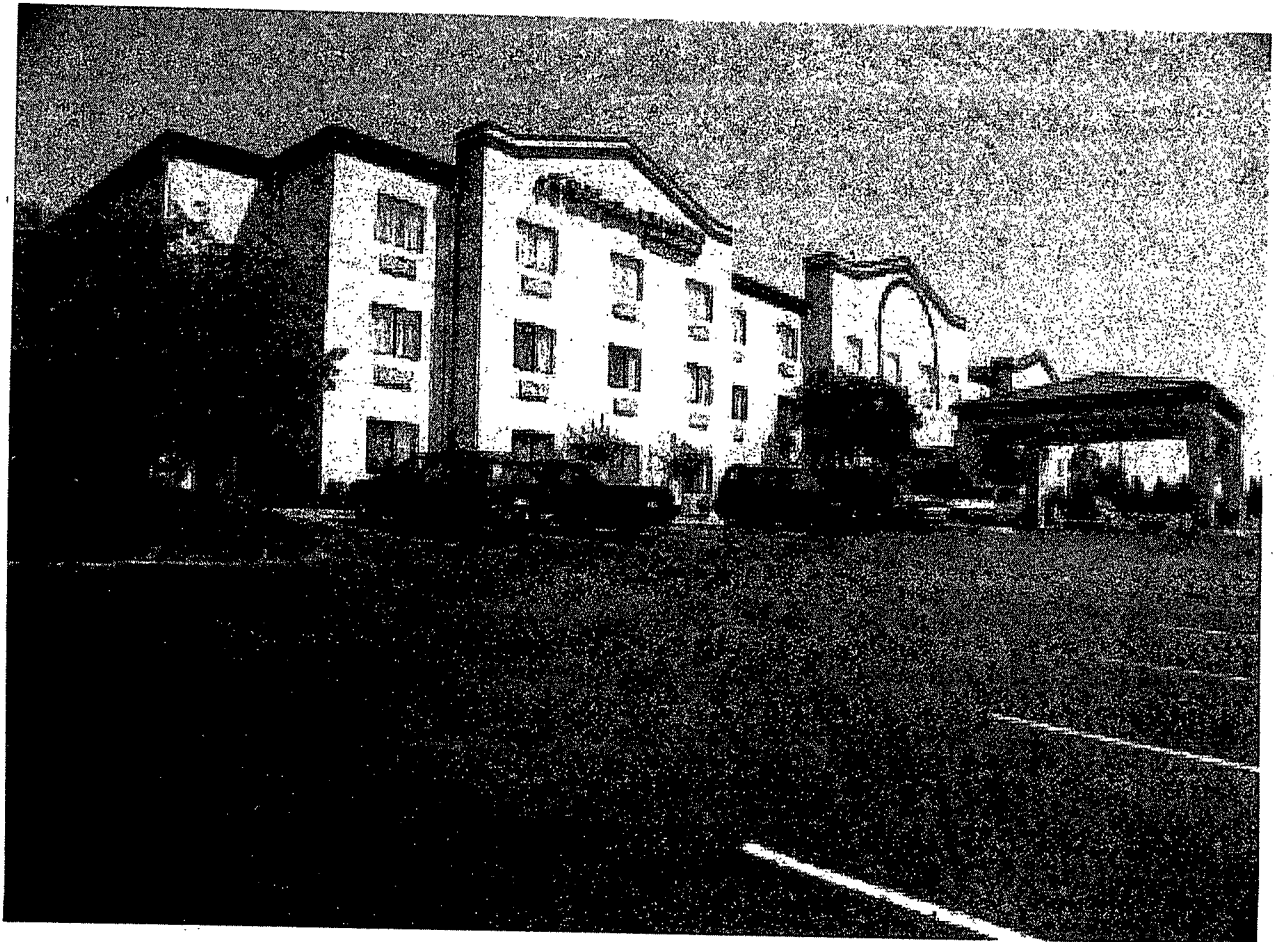
INDICATORS

SALE PRICE/GROSS SF	\$131.28
SALE PRICE/ROOM	\$68,293
EXPENSE RATIO	66%
NIO/ROOM	\$5,909
GROSS RENT ROOM	3.93
MULTIPLIER	
OVERALL CAP RATE	8.65%

COMMENTS

This hotel is located just north of the I-85/Pelham Road Interchanged in Greer, South Carolina. It does have good visibility from the interstate, but access is considered poor since you have a stoplight and turn right and weave around some other properties. It opened in September 1996 and was re-flagged as a Holiday Inn Express in May 2003 after an extensive renovation. It has no meeting rooms. Guest rooms are equipped with a small refrigerator, coffee maker, hair dryer, iron/ironing board and high-speed internet access.

SALE COMPARABLE FOUR (CONT)



SALE COMPARABLE FIVE

PROPERTY IDENTIFICATION

NAME/LOCATION	Quality Inn 821 South Memorial Dr Greenville, NC 27834
RECORDED	Deed Book 2470 Pages 19-22
GRANTOR	Ambica Trader of North Carolina
GRANTEE	Di & Jay Inc.
SALE DATE	March 01, 2008
SALE PRICE	\$3,900,000
PROPERTY RIGHTS	Fee Simple
FINANCING	Cash to seller
VERIFICATION	Third party, Confirmed by MBR
PROPERTY DESCRIPTION	Two-story exterior corridor limited service hotel built in 1985. The property is frame and stucco construction with outdoor pool and exercise/fitness center. It also offers breakfast and internet access.
LAND DATA	4.690 Acres or 204,296 SF
NUMBER ROOMS	110

FINANCIAL ANALYSIS

AVERAGE OCCUPANCY RATE	62%
ANNUAL GROSS ROOM REVENUE	\$1,359,000
TOTAL REVENUE	\$1,425,066
GROSS EXPENSES	\$950,000 (69.9%)
NET OPERATING INCOME	\$409,000 (\$3,718/ROOM)

SALE COMPARABLE FIFTH (CONT)

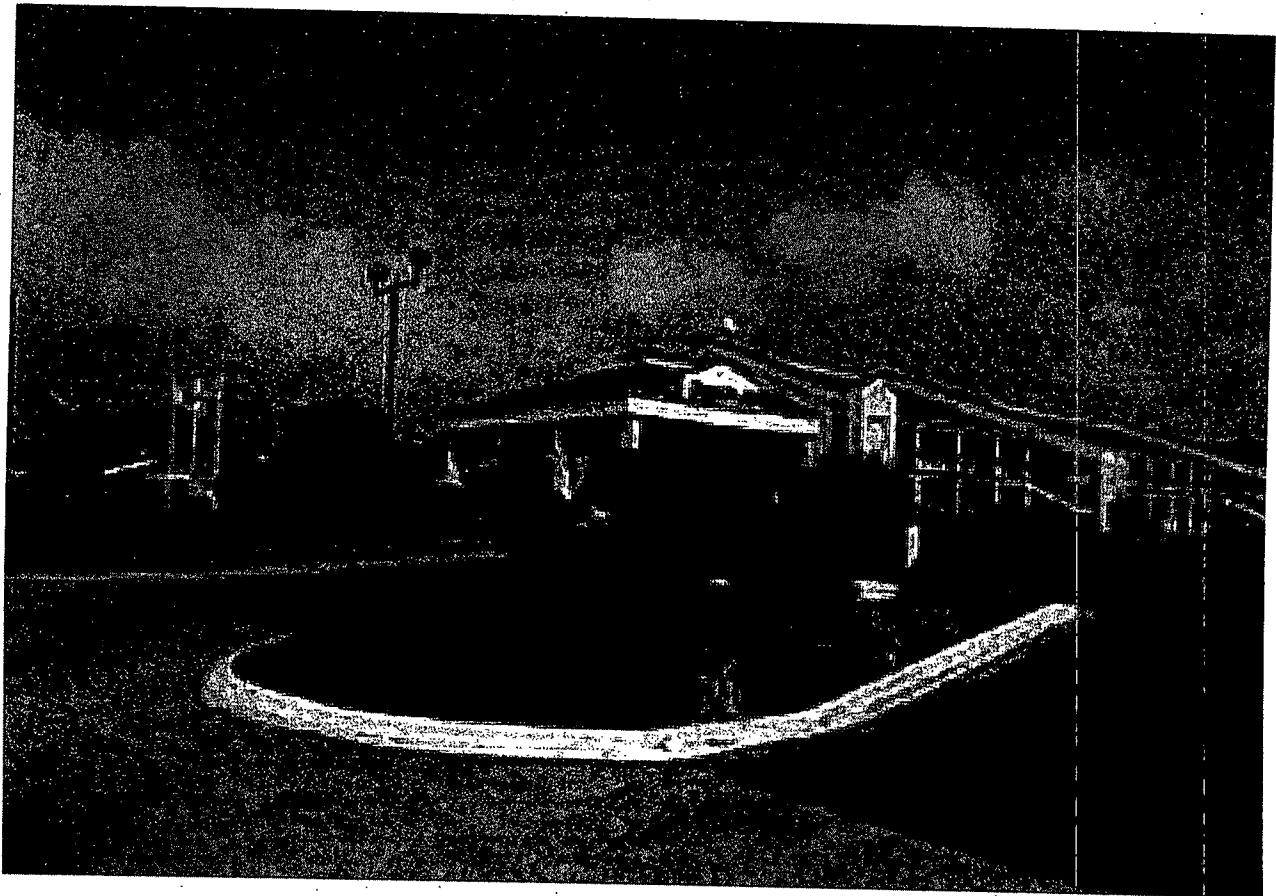
INDICATORS

SALE PRICE/GROSS SF	\$94.03
SALE PRICE/ROOM	\$35,455
EXPENSE RATIO	69.9%
NIO/ROOM	\$3,718
GROSS RENT ROOM	2.87
MULTIPLIER	
OVERALL CAP RATE	10.49%

COMMENTS

This property is located on the east side of South Memorial Dr, proximate to Pitt County Memorial Hospital in the city of Greenville. Property amenities include a meeting room, fitness room, laundry room, an outdoor pool, and a parking area for truckers. The sale price is \$3,900,000 and based on the buyer's pro forma, the indicated capitalization rate is 10.49%.

SALE COMPARABLE FIFTH (CONT)



SALE COMPARABLE SIX

PROPERTY IDENTIFICATION

NAME/LOCATION	Sleep Inn 11220 Copperfield Boulevard Concord, North Carolina 28025 Deed Book 8168 Page 351 Concord Motel One, LLC SD Hospitality, Inc.
RECORDED	April 01, 2008
GRANTOR	\$4,190,000
GRANTEE	Fee Simple
SALE DATE	Cash to seller
SALE PRICE	Third party, Confirmed by MBR
PROPERTY RIGHTS	Three-story interior corridor limited service hotel built in 1996. The property is frame and EIFS construction with indoor pool, breakfast area, exercise/fitness center, and business center.
FINANCING	5622-86-0975
VERIFICATION	2.000 Acres or 87,120 SF
PROPERTY DESCRIPTION	82
TAX ID	
LAND DATA	
NUMBER ROOMS	
<u>FINANCIAL ANALYSIS</u>	
AVERAGE OCCUPANCY	58.9%
RATE	
TOTAL REVENUE	\$1,196,993
GROSS EXPENSES	\$795,791 (66%)
NET OPERATING INCOME	\$401,202 (\$4,893/ROOM)

SALE COMPARABLE SIX (CONT)

INDICATORS

SALE PRICE/GROSS SF	\$156.79
SALE PRICE/ROOM	\$51,098
EXPENSE RATIO	66.48%
NIO/ROOM	\$4,893
GROSS RENT ROOM	3.50
MULTIPLIER	
OVERALL CAP RATE	9.58%

COMMENTS

The location of this property at the Dale Earnhardt Boulevard and I-85 interchange provides good access and visibility. The facility has been well maintained and is in overall good condition. Financial information utilized herein derives from performance data trailing 12 months through October 2007. The indicated OAR for this transaction based on the operating data provided is 9.58%.

SALE COMPARABLE SIX (CONT)



SALE COMPARABLE SEVEN

PROPERTY IDENTIFICATION

NAME/LOCATION	Red Roof Inn Charlotte Airport (West) 3300 Queen City Drive Charlotte, North Carolina 28208
RECORDED	Deed Book 24115 Page 807
GRANTOR	Diplomat Development, LLC
GRANTEE	Shreeji Hospitality Queen City
SALE DATE	September 01, 2008
SALE PRICE	\$2,700,000
PROPERTY RIGHTS	Fee Simple
FINANCING	Cash to seller
VERIFICATION	Third party, Confirmed by MBR
PROPERTY DESCRIPTION	Two-story exterior corridor limited service hotel built in 1981. The property is frame and stucco construction with free coffee.
TAX ID	
LAND DATA	1.849 Acres or 80,542 SF
NUMBER ROOMS	84

FINANCIAL ANALYSIS

AVERAGE OCCUPANCY RATE	62.8%
TOTAL REVENUE	\$1,015,757
GROSS EXPENSES	\$714,803 (70.4%)
NET OPERATING INCOME	\$300,954 (\$3,583/ROOM)

SALE COMPARABLE SEVEN (CONT)

INDICATORS

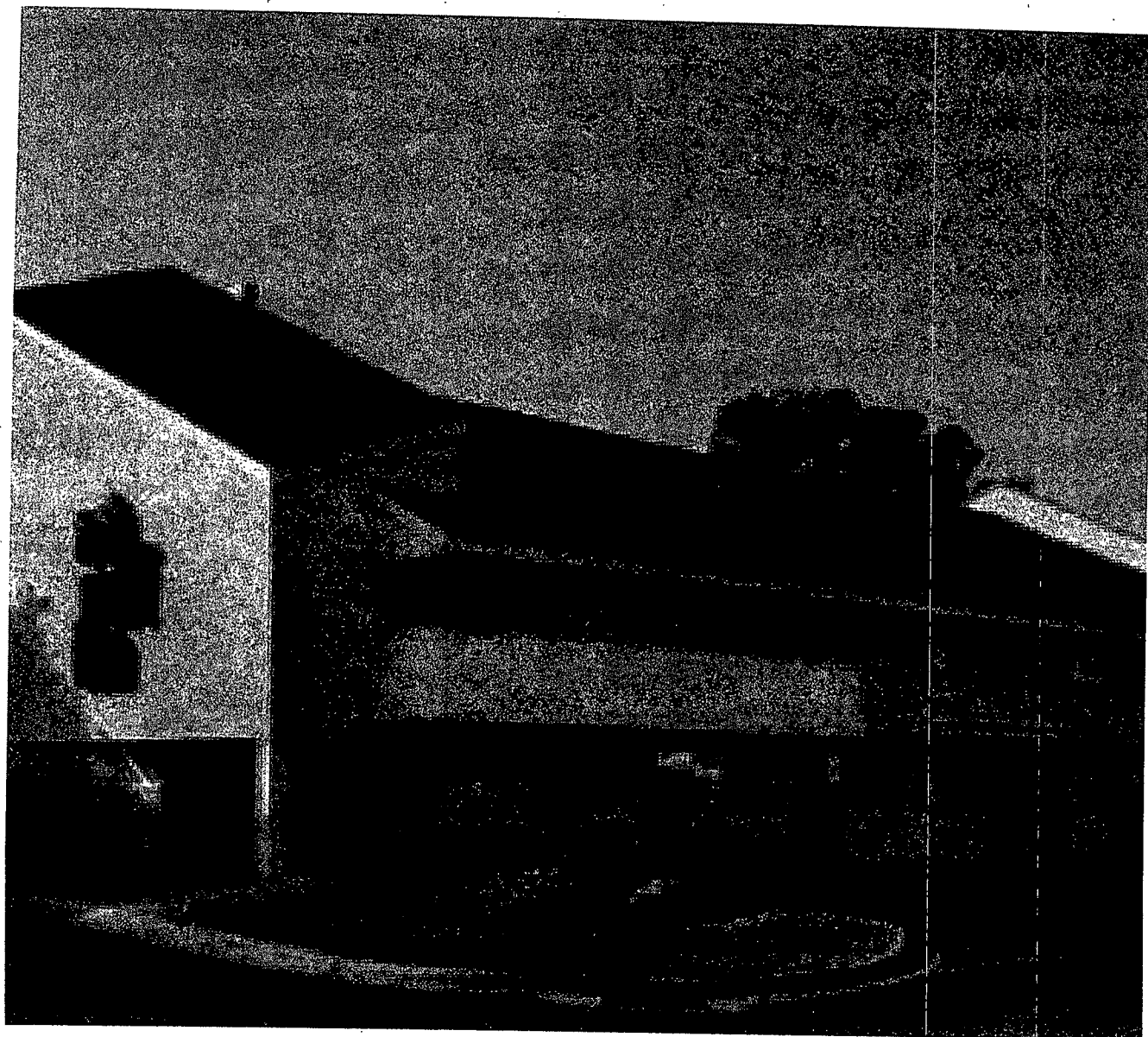
SALE PRICE/GROSS SF	\$84.32
SALE PRICE/ROOM	\$32,143
EXPENSE RATIO	70.37%
NIO/ROOM	\$3,583
GROSS RENT ROOM	2.66
MULTIPLIER	
OVERALL CAP RATE	11.15%

COMMENTS

This hotel is located along the south side of Queen City Drive, just north of the Billy Graham Parkway/I-85 interchange in West Charlotte. The property was originally built in 1981 and is in average condition for its age.

The buyer reported that they approached seller directly and that no broker was involved. He also stated that he anticipated a PIP of approximately \$150,000 to \$200,000 to keep the Red Roof Inn flag. The unadjusted purchase price equates to a GRM of 2.66 based on the trailing 12 months ending May 31, 2008. The implied cap rate based on the trailing 12 months' financial data ending May 31, 2007 was 11.15%. Expenses include an abnormally high 5.6% management fee. The buyer suggested that he should realize significant upside in NOI by better controlling operating costs and place little to no weight on historical expenses. He plans to self-manage the property and cut the payroll costs significantly once he takes over ownership.

SALE COMPARABLE SEVEN (CONT)



Projected Income and Expense

2008 Tax Year

Room Sales:

60 rooms x *\$70.07 ADR x 365 Days= **Potential Gross Income**= \$1,534,533
(*ADR of Competitive Set-- See 2009 STR Report which contains 2008 data)
Other Income (not included)

Occupancy:

2008 Occupancy rate of the competitive set was *48.3% 48%
(See 2009 STR Report which contains 2008 data)

Effective Gross Income (EGI) **\$736,576**

Expenses:

Total Operating Expenses (69% Expense Ratio)	\$508,237
3% Management Fee \$22,097	22,097
1% Replacement & Allowance Expense	7,366
	<u>537,700</u>

Net Operating Income (NOI) **\$198,876**

Average Daily Rate (ADR) and Occupancy rate of competitive set per Smith Travel Research report provided by taxpayer.

Taxpayer's 2009 Expense Ratio was 69% which included the \$47,803.67 Management Fee and \$12,987.74 Total Maintenance and Repairs (Included \$900 Pest Control expense). The 69% ratio did not include a management fee. Also, expense ratios for comparable sales ranged from 66% to 69%.



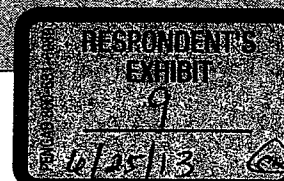


Forecasts of Return Components

Cap Rates Peak in 2009 - 2010

	10 Year Treasury	Market Risk Premium	Lodging Risk Premium	Hotel Cap Rate
2005	4.3%	1.8%	3.2%	9.3%
2006	4.8%	1.7%	2.0%	8.5%
2007	4.6%	1.9%	1.1%	7.6%
2008	3.7%	3.8%	0.4%	7.9%
2009F	3.3%	3.3%	3.6%	10.0%
2010F	4.2%	2.7%	3.1%	10.0%
2011F	5.1%	2.3%	2.3%	9.7%
2012F	5.6%	2.1%	1.5%	9.2%
2013F	4.9%	2.1%	1.7%	8.7%

Source: PKF Hospitality Research, IRERC, Moody's Economy.com



PKF

CONSULTING
CAPITAL
HOSPITALITY RESEARCH

Direct Capitalization

\$198,876 NOI = \$1,988,760

.10 Overall cap rate (OAR)

TOTAL VALUE WITH FURNITURE, FIXTURES, & EQUIPEMENT	\$1,988,760
PERSONAL PROPERTY ESTIMATED AT \$1,200 PER ROOM x 60 ROOMS =	<u><72,000></u>
RESIDUAL VALUE TO THE REAL PROPERTY	\$1,917,000 (Rounded)

Total Appraised Value per Assessor's Office is \$1,876,000 via Cost Approach.

Current Assessed Values Per Assessor's Office of Limited-Service Hotels & Motels located in Gaffney, SC

Name	Address	Map Ref #	Market Value	# Rooms	Year Built	Price/Room
Sleep Inn (Subject Property)	834 Windslow Ave Gaffney SC 29341	063-00-00-060.001	\$1,962,540	62	1999	\$31,654
Sleep Inn (Subject Property)	834 Windslow Ave Gaffney SC 29341	063-00-00-060.001	\$1,876,000 After 2009 Appeal	60	1999	\$31,267
Sleep Inn (Subject Property)	834 Windslow Ave Gaffney SC 29341	063-00-00-060.001	\$698,000 Per Appraisal Prepared by Joe Rosen	60	1999	\$11,633
Red Roof Inn Hotel-Interior Corridor	132 New Painter Dr Gaffney SC 29341	063-00-00-058.003	\$1,950,000	64	1999	\$30,469
Hampton Inn Hotel-Interior Corridor	115 Nancy Creek Rd Gaffney SC 29341	063-00-00-052.008	\$4,649,980	85	1999	\$54,706
Jameson Inn Motel-Exterior Corridor	101 Stuard St Gaffney SC 29341	080-00-00-122.001	\$2,327,000	60	1998	\$38,783
Super 8 Motel Motel-Exterior Corridor	100 Ellis Ferry Ave Gaffney SC 29341	080-00-00-029.000	\$1,835,000	60	1986	\$30,583
Homestead Lodge Motel-Exterior Corridor	136 Peachoid Rd Gaffney SC 29341	080-00-00-058.000	\$1,600,000	100	1968	\$16,000



Quality Inn	143 Corona Dr	080-00-00-057.000	\$1,327,500	83	1987	\$15,994
Motel-Exterior Corridor	Gaffney SC 29341					

STATE OF SOUTH CAROLINA
ADMINISTRATIVE LAW COURT

Tilbros, Inc.,

Docket No. 11-ALJ-17-0299-CC

Petitioner,

PETITIONER'S
STIPULATION OF FACTS

V.

Cherokee County Assessor's Office,

Respondent.

Pursuant to South Carolina Administrative Law Court Rule 25(C), and in the interest of judicial economy, Petitioner Tilbros, Inc. ("Petitioner") and Respondent Cherokee County Assessor's Office ("Respondent") hereby stipulate to the following facts:

- (1) This matter is a contested case brought by Petitioner concerning Respondent's determination of the value for ad valorem taxation of the real property and improvements owned by Petitioner and identified as follows:

834 Windslow Avenue
Gaffney, Cherokee County, South Carolina
Tax Map Number 063-00-00-060.001 (the "Property")
- (2) In May 2008, Petitioner acquired the Property and the hotel operation situated on the Property.
- (3) Petitioner operates and manages a Sleep Inn hotel on the Property. The hotel building is three (3) stories and consists of sixty (60) rooms. The Property has seventy-two (72) parking spaces (including handicap spaces).
- (4) The Property is an irregular shape containing 1.27 acres and is located on a frontage road directly adjacent to Interstate 85.
- (5) This contested case stems from Respondent's assessment of the Property for tax year 2010. The parties stipulate the date of value is December 31, 2008.
- (6) For tax year 2010, Respondent valued the Property at a fair market value equal to \$1,962,540.

834 Windslow Avenue
Gaffney, Cherokee County, South Carolina
Tax Map Number 063-00-00-060.001 (the "Property")

- (7) Pursuant to S.C. Code Section 12-60-2510, Petitioner timely filed with Respondent a written notice of objection by letter dated September 29, 2010.
- (8) Petitioner and Respondent did not hold a conference regarding Petitioners' written notice of objection pursuant to S.C. Code Section 12-60-250.
- (9) By letter dated December 14, 2010, Respondent reduced the fair market value of the Property from \$1,962,540 to \$1,876,000.
- (10) Pursuant to S.C. Code Section 12-60-2530, Petitioner timely filed an appeal with the Cherokee County Board of Assessment Appeals (the "Board") by letter dated January 13, 2011.
- (11) Pursuant to S.C. Code Section 12-60-2530, the Board held a hearing regarding Petitioner's appeal on May 5, 2011.
- (12) Before the Board, Respondent valued the Property at \$1,876,000 as of December 31, 2009 for tax year 2010.
- (13) The Board affirmed Respondent's valuation of the Property in its final decision dated May 9, 2011.
- (14) On June 3, 2011, pursuant to S.C. Code Section 12-60-2540, Petitioner timely filed with the South Carolina Administrative Law Court its Notice of and Request for Contested Case Hearing.
- (15) The tax year in dispute is 2010.
- (16) The parties have stipulated that the date of value for purposes of this appeal is December 31, 2008.¹
- (17) The highest and best use of the Property is as a hotel.
- (18) Joseph B. Rosen is a South Carolina licensed general appraiser with the appraisal firm Rosen Appraisal Associates. Mr. Rosen obtained a Bachelor of Science in Finance - Real Estate from the University of South Carolina, and is a member of (a) Appraisal Institute (MAI) holding the Senior Residential Appraiser (SRA) designation, and (b) the American Society of Appraisers holding the Accredited Senior Appraiser (ASA) designation.
- (19) Mr. Rosen is the author, maker and creator of an appraisal report for the Property entitled the Summary Appraisal Report of 834 Windslow Avenue, Gaffney, Cherokee

¹ Prior to stipulation to the December 31, 2008 date of value, the parties consistently used December 31, 2009 as the applicable date of value. The parties, however, agree that the prior use of December 31, 2009 as the applicable date of value does not preclude this matter from going forward.

County, South Carolina as of December 31, 2008, a copy of which attached hereto as Exhibit "1".

- (20) A true and correct copy of Petitioner's Profit and Loss Statements for May – December 2008 is attached hereto as Exhibit "2".
- (21) A true and correct copy of the STR Report for the Property as of December 2008 is attached hereto as Exhibit "3".
- (22) An article entitled *Understanding the Unique Aspects of Hotel Property Tax Valuation* (January 1993) by Daniel H. Lesser, MAI and Karen E. Rubin and published in The Appraisal Journal is attached hereto as Exhibit "4".
- (23) A true and correct summary of Economic and Market Indicators as of June 2006 through June 2009 including, market rates and bond yields, and stock dividend yields, is attached hereto as Exhibit "5".
- (24) A true and correct summary of market data reflecting the collapse of the financial and credit markets in mid-September 2008 is attached hereto as Exhibit "6".
- (25) A true and correct summary of certain stock values as of January 2, 2008 and December 31, 2008 is attached hereto as Exhibit "7".
- (26) A copy of decision issued by the South Carolina Administrative Law Court in the matter captioned *Meeting Street Ventures, LLC v. Charleston County Assessor*, 2004 WL 3154642 (Feb. 19, 2004) (Docket No. 03-ALJ-17-0297-CC) is attached hereto as Exhibit "8".

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STATE OF SOUTH CAROLINA
ADMINISTRATIVE LAW COURT

Tilbros, Inc.,

Docket No. 11-ALJ-17-0299-CC

Petitioner,

FOUNDATION FOR EXCHANGE
OF EVIDENCE AND DOCUMENTS

v.

Cherokee County Assessor's Office,

Respondent.

To: Joseph L.V. Johnson, Esquire,
Saint-Amand, Thompson & Mathis, LLC
210 South Limestone Street, Suite 1
Gaffney, South Carolina 29430
Attorneys for Respondent Cherokee County Assessor

Pursuant to ALC Rules 26 and 27, Tilbros, Inc. ("Petitioner") intends to introduce into evidence the following:

1. Documents (a copy of each document is attached):

- a. Document Name: Summary Appraisal Report of 834 Windslow Avenue,
Gaffney, Cherokee County, South Carolina as of December
31, 2008

Author, maker, or creator of document: Joseph B. Rosen, MAI, SRA, ASA
Rosen Appraisal Associates

- b. Document Name: Profit & Loss May through December 2008

Author, maker, or creator of document: Petitioner

- c. Document Name: Email dated February 3, 2011 from Robert Weaver to Will
Dawson dated February 3, 2011

Author, maker, or creator of document: Respondent

- d. Document Name: STR Report as of January 2009
Author, maker, or creator of document: Smith Travel Research
- e. Document Name: Article entitled: *Understanding the Unique Aspects of Hotel Property Tax Valuation* (January 1993)
Author, maker, or creator of document: Daniel H. Lesser, MAI, and Karen E. Rubin
Published in The Appraisal Journal
- f. Document Name: Excerpt from Hotels and Motels: A Guide to Market Analysis, Investment Analysis and Valuations
Author, maker, or creator of document: Stephen Rushmore, MAI
- g. Document Name: Excerpt from Hotels and Motels: Valuations and Market Studies
Author, maker, or creator of document: Stephen Rushmore, MAI
- h. Document Name: Excerpt from Valuation, a publication of the Appraisal Institute entitled: Economic and Market Indicators
Author, maker, or creator of document: Excerpt from Valuation (3rd Quarter 2009) - a publication of the Appraisal Institute
- i. Document Name: Summary of Collapse of Financial and Credit Markets
Author, maker, or creator of document: Market Data
- j. Document Name: Investment Return (summary of stock values)
Author, maker, or creator of document: Market Data
- k. Document Name: Final Order and Decision of South Carolina Administrative Law Court - *Meeting Street Ventures, LLC v. Charleston County Assessor*, 2004 WL 3154642 (Feb. 19, 2004) (Docket No. 03-AIJ-17-0297-CC)
Author, maker, or creator of document: South Carolina Administrative Law Court

2 Possible Witnesses:

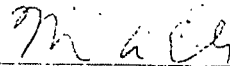
a. Name: Joseph B. Rosen, MAI, SRA, ASA

Summary of Testimony: Mr. Rosen will testify as to the appraisal of the property in question, the value of the property, in question, market indicators and other aspects and standards of valuing real property and hotels in South Carolina. Petitioner will seek to have Mr. Rosen designated as an expert witness.

b. Name: Ami Tilva

Summary of Testimony: Ms. Tilva would testify as to the ownership and operation of the real property in question.

I, Morris A. Ellison, Esq., am aware that any witness summaries or documents or exhibits that are not exchanged with the other parties to this matter may result in the exclusion of the non-exchanged evidence.



Morris A. Ellison, Esq.
William T. Dawson III, Esq.
Womble Carlyle Sandridge & Rice, LLP
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Charleston, South Carolina 29401
(843) 722-3400
(843) 723-7398 (fax)
mellison@wcsr.com
wdawson@wcsr.com
Attorneys for Petitioner

DATE: May 21, 2013

Tilbros, Inc..

Petitioner.

V.

Respondent.

Sarah J. Watson
Womble Carlyle Sandridge & Rice LLP

**STATE OF SOUTH CAROLINA
ADMINISTRATIVE LAW COURT**

Tillbros, Inc.,

Petitioner,

vs.

Cherokee County Assessor,

Respondent.

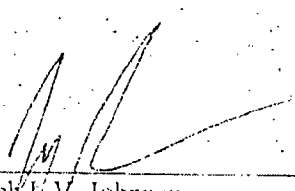
Docket No. 11-ALJ-17-0299-CC

**RESPONDENT'S RESPONSE
TO FOUNDATION FOR EXCHANGE OF
EVIDENCE AND DOCUMENTS**

TO: Morris A. Ellison, attorney for the Petitioner:

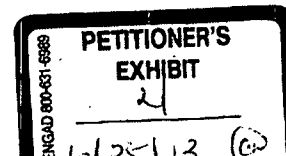
The Respondent replying to the Petitioner's Foundation for Exchange of Evidence and Documents dated May 21, 2013, would respectfully show the following:

- 1) That the Respondent agrees to the submission of all documents listed as letters (a) through (k) of the Petitioner's Foundation for Exchange of Evidence and Documents dated May 21, 2013 with the following exceptions:
 - a. For documents (e), (f), (g), and (h), the Respondent would assert that the information provided is inadmissible hearsay. The Respondent stipulates, however, that the documents may be read into evidence only upon reliance of an expert witness, but pursuant to S.C.R.I. 803(18), may not be introduced as exhibits.



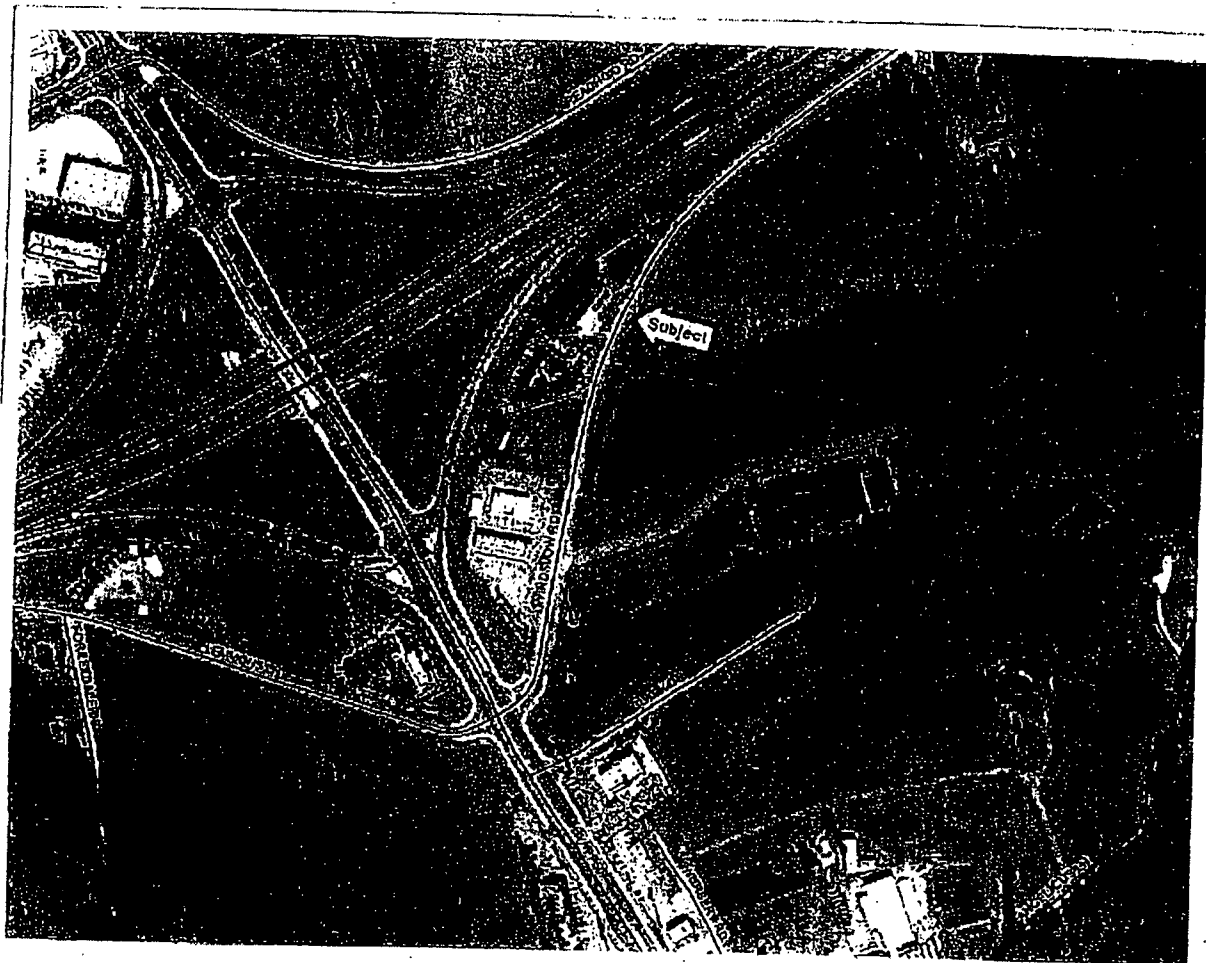
Joseph E.V. Johnson
Saint Amand, Thompson & Mathis, LLC
210 South Limestone Street, Suite 1
Gaffney, South Carolina 29340
Tel.: 864-489-6052
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May 31, 2013
Gaffney, South Carolina



SUMMARY APPRAISAL REPORT OF

834 WINDSLOW AVENUE, GAFFNEY,
CHEROKEE COUNTY, SOUTH CAROLINA

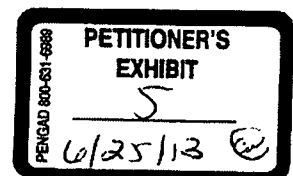


AS OF:

December 31, 2008

BY:

ROSEN APPRAISAL ASSOCIATES



Rosen Appraisal Associates

1717 LAUREL STREET
COLUMBIA, SC 29201-2624

Real Estate Appraisers and Consultants - Serving the Public Since 1956

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February 11, 2013
File 11-190A

Tilbros, Inc.
Attention: Ami Tilva
6 Hummers Court
Greenville, SC 29615

Dear Ms. Tilva:

At your request, I have inspected, investigated and compiled the appraisal facts, data and other material necessary to complete the enclosed report. The property appraised is a Sleep Inn sixty-room hotel located at 834 Windslow Avenue, Gaffney, Cherokee County, South Carolina. It is shown as Map Number 063-00-00-060.001. No Certificate of Title was made available from which easements and other items could be recognized and analyzed.

This is a **Summary Appraisal Report** and is intended to comply with the reporting requirements of Standard II of the Uniform Standards of Professional Appraisal Practice. The appraiser is not responsible for unauthorized use of this report. The purpose of the report is to provide the detailed, property-specific information that should be considered by a property appraiser in determining a "Fair Market Value" or "Market Value" for ad valorem tax purposes as of December 31, 2008. Fair Market Value is generally defined as the same as Market Value in appraisal literature.

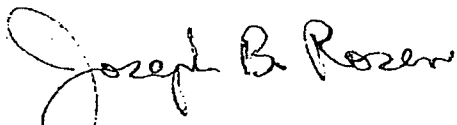
As a result of the investigation, the analysis of the data collected and the appraiser's general knowledge of real estate valuation, it is concluded that the Market Value of the Fee Simple Interest of the land and improvements on the subject property as described in the report to follow, as of December 31, 2008 is:

SIX HUNDRED NINETY EIGHT THOUSAND DOLLARS
(\$698,000)

Tilbros, Inc.
Attention: Ami Tilva
File 11-190A
February 11, 2013
Page Two

A description of the property appraised and an explanation of the valuation procedures used are contained in the body of the attached report. Your attention is also directed to the Limiting Conditions and Assumptions upon which the value conclusions are contingent.

Respectfully submitted,



Joseph B. Rosen, MAI, SRA, ASA
S.C. State Certified General Real Estate
Appraiser #CG177

JBR:tha

CC: Morris A. Ellison, Esquire
Wombic Carlyle Sandridge & Rice, LLP
5 Exchange Street
Charleston, SC 29401

SUMMARY OF SALIENT FACTS AND CONCLUSIONS

LOCATION: The subject property is located at 834 Windslow Avenue, Gaffney, Cherokee County, South Carolina

TAX MAP IDENTIFICATION: TMS 063-00-00-060.001

PROPERTY SIZE & TYPE: The subject consists of 1.27 acres of land improved with a sixty-room hotel

DATE OF VALUATION: December 31, 2008

DATE OF APPRAISAL: February 11, 2013

DATE OF INSPECTION: February 2, 2012

OBJECTIVE: Estimate the Market Value of the Fee Simple Interest of the subject property as of December 31, 2008

ZONING: GC - General Commercial District (City of Gaffney)

HIGHEST & BEST USE: If Vacant: Hotel or restaurant catering to Interstate 85
As Improved: Continuing use as a hotel

VALUE CONCLUSIONS:

COST APPROACH:	Omitted
SALES COMPARISON APPROACH:	Omitted
INCOME CAPITALIZATION APPROACH:	\$793,500
LESS BUSINESS VALUE	\$ 60,700
LESS DERIVATION OF INCOME ATTRIBUTABLE TO FF&E	\$ 34,800
MARKET VALUE OF LAND AND IMPROVEMENTS:	\$698,000

CERTIFICATION

I certify that, to the best of my knowledge and belief:

1. The statements and facts contained in the report, upon which the analyses, opinions and conclusions expressed herein are based, are true and correct, and no pertinent facts affecting marketability have been knowingly withheld.
2. The reported analyses, opinions and conclusions are limited only by the reported assumptions and limiting conditions, and are my personal, unbiased professional analyses, opinions and conclusions.
3. I have no present interest or prospective interest in the property that is the subject of this report, and I have no personal interest or bias with respect to the parties involved.
4. My compensation is not contingent upon the reporting of a pre-determined value or direction in value that favors the cause of the client, the amount of the value estimate, the attainment of a stipulated result, or the occurrence of a subsequent event.
5. The reported analyses, opinions and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice of the Appraisal Foundation and the requirements of the Code of Professional Ethics and the Standards of Professional Appraisal Practice of the Appraisal Institute.
6. The use of the report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representative.
7. I have made a personal inspection of the property that is the subject of this report.
8. No one provided significant professional assistance to the undersigned.
9. As of the date of this report, I have completed the requirements of the continuing education program of the Appraisal Institute.
10. This appraisal assignment was not based on a requested minimum valuation, a specific valuation, or the approval of a loan.
11. I have performed services, as an appraiser, regarding the property that is the subject of this report within the three-year period immediately preceding acceptance of this assignment.



Joseph B. Rosen, MAI, SRA, ASA
State Certified General Real Estate Appraiser #CG177

February 11, 2013
Date

PREFACE

Hospitality uses including hotels, motels, inns, bed and breakfast inns, and resorts require identification, separation and measurement of intangible assets or inclusion of capitalized economic profit as an element of residual intangible assets.

Real property is the land; site improvements including the parking lots, driveways, landscaping and swimming pools; and buildings including sleeping rooms, dining areas, kitchen, lounges, meeting rooms, lobby, recreation and fitness areas, laundry, and maintenance facilities.

The tangible personal property includes room furnishings, kitchen and dining equipment, laundry equipment, maintenance equipment, recreation equipment, signage, beverage and lounge equipment, computers and office equipment, linens, vehicles, inventory, and security system.

Intangible personal property includes assembled workforce, cash and equivalents, business name, non-realty contracts, non-realty leases, business organization, and innovations.

An important point in being a franchisee adds no name value to a hospitality business because the franchiser owns the name; however, a hotel/motel may earn a return on an investment in a favorable franchise contract and is entitled to a return on any money invested as a franchise fee.

The article "*Understanding the Unique Aspects of Hotel Property Tax Valuation*" by Daniel L. Lesser, MAI, and Karen E. Rubin was utilized for the methodology to separate real property, personal property and intangible assets. The article was published in the January 1993 The Appraisal Journal. A copy of this article is located in the Addenda of this report.

The concept of deducting business value is required in appraisals. See the following books:

- Hotels & Motels - A Guide to Market Analysis, Investment Analysis, and Valuations by Stephen Rushmore, MAI published by the Appraisal Institute in 1992 and
- Valuations and Motels - Valuation and Market Studies by Stephen Rushmore, MAI and Erich Baum published by the Appraisal Institute in 2001.

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STATEMENT AND AGREEMENT AS TO LIMITING CONDITIONS AND ASSUMPTIONS

The use of this appraisal report for any purpose signifies the reading and acceptance of all assumptions, attachments and limiting conditions. These conditions are a part of the appraisal report, they are a preface to any certification, definition, fact or analysis, and are intended to establish as a matter of record that the appraiser's function is to provide a present market value indication for the subject property based upon the appraiser's observations as to the subject property and the real estate market. This appraisal report is an economic study to estimate value as defined in the report. It is not an engineering, construction, environmental, legal or architectural study nor survey and no such expertise is implied. No testings of material, equipment, soils, water, air or vegetation were made on or off site.

The limiting conditions and assumptions, which follow, apply to each and every property identified for valuation in this report, unless otherwise indicated.

Assumptions relevant to the acceptance and completion of this appraisal assignment:

1. No responsibility is assumed for matters of a legal or technical nature which might affect the property being appraised or the title thereto. The title is assumed to be good and marketable unless stated otherwise.
2. The property is appraised as though free and clear of any or all liens or encumbrances unless otherwise stated.
3. Responsible ownership and competent property management are assumed.
4. The information furnished by others is believed to be reliable, but no warranty is given for its accuracy.
5. All engineering studies are assumed to be correct. The plot plans/floor plans and other illustrative material in this report are included only to help the reader visualize the property.
6. It is assumed that there are no hidden or unapparent conditions of the subject property, subsoil, or structures that render it more or less valuable. No responsibility is assumed for such conditions or for obtaining the engineering studies that may be required to discover them.
7. It is assumed that the property is in full compliance with all applicable federal, state and local environmental regulations and laws unless the lack of compliance is stated, described, and considered in the appraisal report.
8. It is assumed that the property conforms to all applicable zoning and use regulations and restrictions unless a nonconformity has been identified, described, and considered in the appraisal report.
9. It is assumed that all required licenses, certificates of occupancy, consents, and other legislative or administrative authority from any local, state, or national government or private entity or organizations have been or can be obtained or renewed for any use upon which the opinion of value contained in this report is based.
10. It is assumed that the use of the land and improvements is confined within the boundaries or property lines of the property described and that there is no encroachment or trespass unless noted in the report.
11. Unless otherwise stated in this report, the existence of hazardous materials, which may or may not be present on the property, was not observed by the appraiser. The appraiser has no knowledge of the existence of such materials

on or in the property. The appraiser, however, is not qualified to detect such substances. The presence of substances such as asbestos, ureaformaldehyde foam insulation, and other potentially hazardous materials may affect the value of the property. The value estimated is predicated on the assumption that there is no such material on or in the property that would cause a loss in value. No responsibility is assumed for such conditions or for any expertise or engineering knowledge required to discover them. The intended user is urged to retain an expert in this field, if desired.

12. The presence of potentially dangerous or hazardous materials, gases, mold, mildew, or toxic substances may affect the value of the property and in this appraisal the value estimate is predicated on the assumption that there is no such element on, in or near the property that would cause a loss in value. No responsibility is assumed for any such conditions or for any expertise or engineering knowledge required to discover them.
13. Good structural and mechanical conditions are assumed to exist and no opinion as to these matters is to be inferred or construed from the attached report.
14. That certain opinions, data, and estimates furnished by others in the course of this investigation are correct.
15. That no recorded restriction or zoning ordinance would prohibit the use of the property for any purpose indicated to be the Highest and Best Use unless cited in the report.
16. That any legal instrument or engineering document, plat or report affecting or indicating an effect upon the use and utility of the property has been furnished to the appraiser's by the orderer or property owner and that if no such documents are presented (in original form or a copy) prior to or by the date of inspection of the property, it is a representation that no such documents exist.

Limiting conditions which apply to the acceptance and completion of this appraisal assignment:

1. The property is appraised as though owned in fee simple and free and clear of any existing lien or encumbrance, unless specifically noted in this report.
2. The appraiser(s) has (have) no responsibility for matters of a technical or legal nature, especially those affecting title to the property.
3. No obligation for court testimony with regard to this appraisal report exists, unless arrangements have been previously made therefore.
4. Value distributions as outlined in this report serve as a basis for distribution of total valuation and shall not be separately quoted or utilized.
5. Drawings, sketches, or maps as included in this report are for the sole purpose of assisting the reader in visualizing the property. Unless otherwise indicated, they are not engineering drawings.
6. The appraisal is based on there being no hidden or unapparent conditions of the property, subsoil, or structures, which would render it more or less valuable. The appraiser(s) has (have) no responsibility for such conditions, or for engineering studies which might be required to discover such factors.
7. Unless otherwise discussed in the body of this report, we assume that appropriate waste disposal facilities are either available from public or private sewer facilities.
8. Users of this appraisal report are directed to obtain the services of a professional engineer to determine the presence and/or absence of hazardous

materials including but not limited to: asbestos and/or radon gas and/or urea formaldehyde foam insulation and/or mold.

9. The appraiser(s) has (have) not made any form of an environmental study, nor have any such studies been made available to the appraiser(s). The value reported herein assumes that the subject site is free and clear of any and all contamination, either on or underground, above ground, air borne, water borne, or within any improvements thereon. The appraiser(s) cannot assume liability for off site environmental problems, either unrevealed, unidentified, or in no way provided to the appraiser(s).
10. This appraisal report is an economic study for value, it is not an engineering, structural, mechanical, feasibility, or architectural study.
11. Possession of this report or any copy thereof does not carry with it right of publication, nor may it be used for other than its intended use; the physical report(s) remain the property of the appraiser(s) for the use of the client, the fee being for the analytical services only. Use of this report is limited to the person, persons, agency or firm for whom it is prepared, and to the appraiser(s). The Bylaws and Regulations of the Appraisal Institute require each Member and Candidate to control the use and distribution of each appraisal report signed by such Member or Candidate, except as hereinafter provided. The client may distribute copies of this appraisal report in its entirety to third parties, however, selected portions of this appraisal report shall not be given to third parties without the prior written consent of the signatories of this appraisal report. Further, there is no accountability, obligation, or liability to any third party. It is, however, the third parties' responsibility to assure itself that the information contained herein is accurate and complete. Any reliance on the contents shall be solely at the third parties' risk. This document when provided to third parties is without any warranty or representation, expressed or implied, as to its content, its suitability for any purpose, its accuracy or completeness. Neither all nor any part of this appraisal report shall be disseminated to the general public by the use of advertising media, public relations, news, sales or other media for public communication without the prior written consent of the appraiser(s).
12. This appraisal is to be used only in its entirety and no part is to be used without the whole report. All conclusions and opinions concerning the analyses as set forth in the report were prepared by the appraiser so indicated on the individual certifications, and as discussed in the Scope of the Appraisal Section. No change of any item in the report shall be made by anyone other than the appraiser(s) and/or officer of the firm. The appraiser(s) and firm shall have no responsibility if any such unauthorized change is made.
13. Disclosure of the contents of the appraisal report is governed by the Bylaws and Regulations of the professional appraisal organizations with which the appraiser(s) is (are) affiliated.
14. This appraisal was obtained from Rosen Appraisal Associates or related companies and/or its individuals or related independent contractors and consists of "trade secrets and commercial or financial information" which is privileged and confidential and exempted from disclosure under 5 U.S.C. 522(b)(4). Notify the appraiser(s) signing the report or an officer of Rosen Appraisal Associates of any request to reproduce this appraisal in whole or part.

15. An abundance of research and analysis was conducted in the preparation of this appraisal and/or appraisal report. All file data, research, and analysis, is incorporated herein by reference.
16. Appraisals are maintained in our office for five years or two years after final disposition in court.
17. For purposes of this appraisal, any masculine pronoun shall include the feminine, any feminine pronoun shall include the masculine, any plural pronoun shall include the singular, and any singular pronoun shall include the plural.
18. The Americans with Disabilities Act (ADA) became effective January 26, 1992. I (we) have not made a specific compliance survey and analysis of this property to determine whether or not it is in conformity with the various detailed requirements of the ADA. It is possible that a compliance survey of the property together with a detailed analysis of the requirements of the ADA could reveal that the property is not in compliance with one or more of the requirements of the act. If so, this fact could have a negative effect upon the value of the property. Since I (we) have no direct evidence relating to this issue, I (we) did not consider possible noncompliance with the requirements of ADA in estimating the value of the property.
19. The subject property may or may not be located in or adjacent to a wetlands area. The appraisers are not qualified in the area of engineering pertaining to the determining of wetlands. Therefore, the appraisers are unable to determine the wetlands status of the subject property. The appraisers assume the appropriate permit, if required, can be or has been obtained from the U.S. Army Corps of Engineers. The appraisers also assume that the jurisdictional determination study and/or permit regarding construction in a wetlands area, if required, does not result in the alteration of the subject property description contained in this appraisal report.
20. The appraiser has examined flood maps provided by the Federal Emergency Management Agency (FEMA) and has noted whether the subject property is located in a special flood hazard area. We are not experts in Flood Zone delineation and make no guarantee regarding the determination since we are not surveyors. Final determination should be made by a licensed surveyor or engineer.
21. Unless otherwise noted in the appraisal report, the estimated market value does not include any personal property, fixtures or other non-real estate items.
22. If additional information is discovered that would alter the value conclusion for the subject, the appraiser retains the right to reconsider the value estimate reported in this appraisal.

EXTRAORDINARY ASSUMPTIONS

It is assumed that qualified professional management will operate the subject. It is assumed that adequate funds will be available for upkeep and repair of the facility.

The appraiser has inspected the subject property site with the due diligence expected of a professional real estate appraiser. The appraiser is not qualified to detect hazardous waste and/or toxic materials. Any comment by the appraiser that might suggest the possibility of the presence of such substances should not be taken as

confirmation of the presence of a hazardous waste and/or toxic materials. Such determination would require investigation by a qualified expert in the field of environmental assessment.

The appraiser's property inspection consists of a viewing of readily accessible areas of the property. The viewing does not constitute a thorough building inspection as would be conducted by a building inspector. No responsibility is assumed for any environmental, building or equipment conditions; or for any expertise, training, equipment or engineering knowledge, which would be required to discover them. The appraiser's descriptions and resulting comments are the result of routine observations made during the appraisal process.

In the event that at the request of the client an insurable value has been provided, it is noted that this analysis should not be relied upon to determine proper insurance coverage. Proper insurance coverage can only be estimated by consultants considered experts in cost estimation and insurance underwriting. Any estimate of insurable value provided within the appraisal report is intended only as an aid to the user as part of their overall decision making process and no representations or warranties are made by Rosen Appraisal regarding the accuracy of this estimate. It is strongly recommended that other sources be utilized to develop any required estimate of insurable value. The appraiser expressly disclaims any liability in connection with the opinion of insurable value.

PRIVACY NOTICE

Appraisers, along with all providers of personal financial services, are now required by federal law to inform their clients of the policies of the firm with regard to the privacy of client nonpublic personal information. As professionals, we understand that your privacy is very important to you and are pleased to provide you with this information.

Types of Nonpublic Personal Information We Collect

In the course of performing appraisals, we may collect what is known as "nonpublic personal information" about you and/or your property. This information is used to facilitate the services that we provide to you and may include the information provided to us by you directly or received by us from others with your authorization.

Parties to Whom We Disclose Information

We do not disclose any nonpublic personal information obtained in the course of our engagement with our clients to nonaffiliated third parties except as necessary or as required by law. By way of example, a necessary disclosure would be to our employees, and in certain situations, to unrelated third party consultants who need to know that information to assist us in providing appraisal services to you. All of our employees and any third party consultants we employ are informed that any information they see as part of an appraisal assignment is to be maintained in strict confidence within the firm.

A disclosure required by law would be a disclosure by us that is ordered by a court of competent jurisdiction with regard to a legal action to which you are a party.

Confidentiality and Security

We will retain records relating to professional services that we have provided to you for a reasonable time so that we are better able to assist you with your needs. In order to protect your nonpublic personal information from unauthorized access by third parties, we maintain physical, electronic and procedural safeguards that comply with our professional standards to insure the security and integrity of your information. Please feel free to call us at any time if you have any questions about the confidentiality of the information that you provide to us.

IDENTIFICATION AND LOCATION

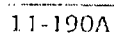
The subject property is located at 834 Windslow Avenue, Gaffney, Cherokee County, South Carolina. The site contains 1.27 acres and is improved with a sixty-room three-story hotel. It is shown on Tax Map 063-00-00-060.001.

LEGAL DESCRIPTION

The following legal description was obtained from Deed Volume 18 at Page 701.

All that certain piece, parcel or lot of land, with all improvements thereon, situate, lying, and being in the County of Cherokee, State of South Carolina, containing 1.27 acres as shown upon plat of survey for Roy Patel prepared by Dane L. Smith, RLS, dated October 16, 1997, and recorded in Plat Book 16-Z, Page 139, in the Office of the Clerk of Court for Cherokee County, South Carolina.

This being the same property conveyed to P.M.P., LLC by deed of Spaf Z. Robinson dated February 26, 1998 and recorded February 27, 1998 in Deed Book 16-Z, Page 140, in the Office of the Clerk of Court for Cherokee County, South Carolina.



PURPOSE AND DATE OF APPRAISAL

The purpose of this **Summary Appraisal Report** is to provide an estimate of the Market Value of the Fee Simple Interest of the subject property as of December 31, 2008, the date of the last reassessment. The value reported is subject to the Limiting Conditions and Assumptions and Extraordinary Assumptions on pages 1 through 5 of this report.

INTENDED USE OF THE APPRAISAL

The intended use of this appraisal is to provide the client, Tilbros, Inc., with an estimate of the Market Value of the Fee Simple Interest of the subject property in connection with a pending tax appeal. This appraisal has been compiled and written to meet and comply with the Code of Professional Ethics and Standards of Appraisal Practice of the Appraisal Institute, the American Society of Appraisers, as well as the Uniform Standards of Professional Appraisal Practice (USPAP) as adopted by the Appraisal Foundation.

PROPERTY RIGHTS APPRAISED

The property rights appraised in this appraisal are the Fee Simple Interest of the subject property. The Fee Simple Estate is the absolute ownership unencumbered by any other interest or estate, subject only to the limitations imposed by the governmental powers of taxation, eminent domain, police power, and escheat. No

current Certificate of Title was made available to ascertain restrictions or other encumbrances.

DEFINITION OF MARKET VALUE

Market Value is defined as: "The most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

1. both buyer and seller are typically motivated;
2. both parties are well informed or well advised, and acting in what they consider their own best interests;
3. a reasonable time is allowed for exposure in the open market;
4. payment is made in terms of cash in US dollars or in terms of financial arrangements comparable thereto; and
5. the price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale."

(Source: (1) Uniform Standards of Professional Appraisal Practice, 2008-2009 Edition, the Appraisal Foundation, Page A-105, (2) Office of the Comptroller of the Currency, 12CFR, Part 34), (3) Federal Deposit Insurance Corporation & Regulation, Part 323.2(f).

PROBABILITY OF CHANGE

The market value of the property appraised in this report is estimated as of the specific effective date. Constantly changing economic, social, political and physical

conditions have varying effects upon real property values. Even after the passage of a relatively short period of time, property values may change substantially and require a review based on differing market conditions.

SCOPE OF THE APPRAISAL

As of July 1, 2006, the Uniform Standards of Professional Appraisal Practice (USPAP) deletes the requirement to label the appraisal analysis as 'complete' or 'limited', as well as the requirement to label the type of report 'restricted use', 'summary' or 'self-contained'. Instead, an appraiser must provide a clear discussion of the Scope of the appraisal assignment.

The Scope of Work is the plan to solve the appraisal problem. The Scope of Work is specific to the intended use and the intended user of the appraisal and is defined by the effective date of the analysis, the type of value sought, characteristics of the subject property, the quantity and quality of the information regarding the relevant characteristics of the subject property, as well as any other conditions of the assignment. The Scope of Work may change during the course of the assignment as the appraiser discovers information about the subject property or its environs. For instance, the appraiser may make assumptions about the subject property because relevant information is not available at the time the appraisal is prepared. Alternatively, it may be necessary for the appraiser to assume a hypothetical condition if information is discovered about the subject property or its environs, but that information can not be considered and is therefore assumed to be false.

EXTENT OF THE APPRAISAL PROCESS

The estimation of a real property's market value involves a systematic process in which the appraiser defines the problem; plans the work necessary to solve the problem; and collects, analyzes and interprets the data relevant to the value estimate. Three traditional approaches to value are normally used in the appraisal process and are discussed in the Approaches to Value section of this report.

The subject property is located at 834 Windslow Avenue, Gaffney, Cherokee County, South Carolina. The site contains 1.27 acres and is improved with a sixty-room Sleep Inn hotel built in 1998. Subject was inspected on February 2, 2012, by Joseph B. Rosen, MAI, SRA, ASA. Detailed data was collected and confirmed for similar properties through the use of public records and recorded deeds, grantors, grantees, and/or real estate brokers and attorneys involved in the transactions. Market data was researched from 2008 to 2009. In addition the appraiser obtained a Star Report for occupancy and rack rates in the area.

Joseph B. Rosen, MAI, SRA, ASA, is a State Certified General Real Estate Appraiser and has been appraising real estate for over thirty-eight years. In that time, he has prepared appraisals for all types of commercial, industrial, institutional and residential property. Joseph B. Rosen, MAI, SRA, ASA, inspected the subject property on February 2, 2012, completed the research and analysis, and preparation of the appraisal report. Joseph B. Rosen, MAI, SRA, ASA, accepts full responsibility for the contents of this report.

COMPETENCY STATEMENT

The Office of the Comptroller of the Currency has issued a ruling that regulates lenders, to evaluate an appraiser's competency for each appraisal assignment.

Joseph B. Rosen, MAI, SRA, ASA, has over thirty-eight years of appraisal experience. In addition, he has owned and managed rental properties and bought and sold rental properties. He has appraised lots, acreage, lake front lots and acreage on lakes, ocean front lots, office buildings, retail buildings, hotels, auto dealerships, auto repair facilities, churches, convenience stores, lube facilities, mini-warehouses, manufactured home parks, apartment projects, medical office buildings, dental office buildings, communication towers, tower sites, and other types of improved properties. The appraiser has the qualification and experience to appraise the subject property.

ASSESSED VALUATION AND TAXES

The subject property is located in Cherokee County and has been appraised for tax purposes by the Cherokee County Assessor's Office. Agricultural land and owner occupied properties are assessed at 4% of their tax appraised value. Non-owner occupied residence, multi-family, commercial and industrial (not manufacturing) properties are assessed at 6% of their tax appraised value. The assessment ratio for manufacturing is 10.5%. The appraised value is multiplied by the appropriate assessment ratio, resulting in the assessed value. The assessed value is then

multiplied by the millage rate for the tax district in which the property is located resulting in the real property taxes. In some counties there is a solid waste charge added to the real property taxes and/or a storm drainage charge. There is a Local Option Sales Tax (LOST) credit in some counties.

Cherokee County - Real Property Taxes

For 2008 subject was appraised for tax purposes for \$2,233,600. The assessed value was \$134,020 ($\$2,233,600 \times 6\%$). Subject is located in Tax District 10 and the tax rate is 282.5 mills. The 2008 real property taxes for Cherokee County was \$37,860.62 which was paid.

Cherokee County - Personal Property Taxes

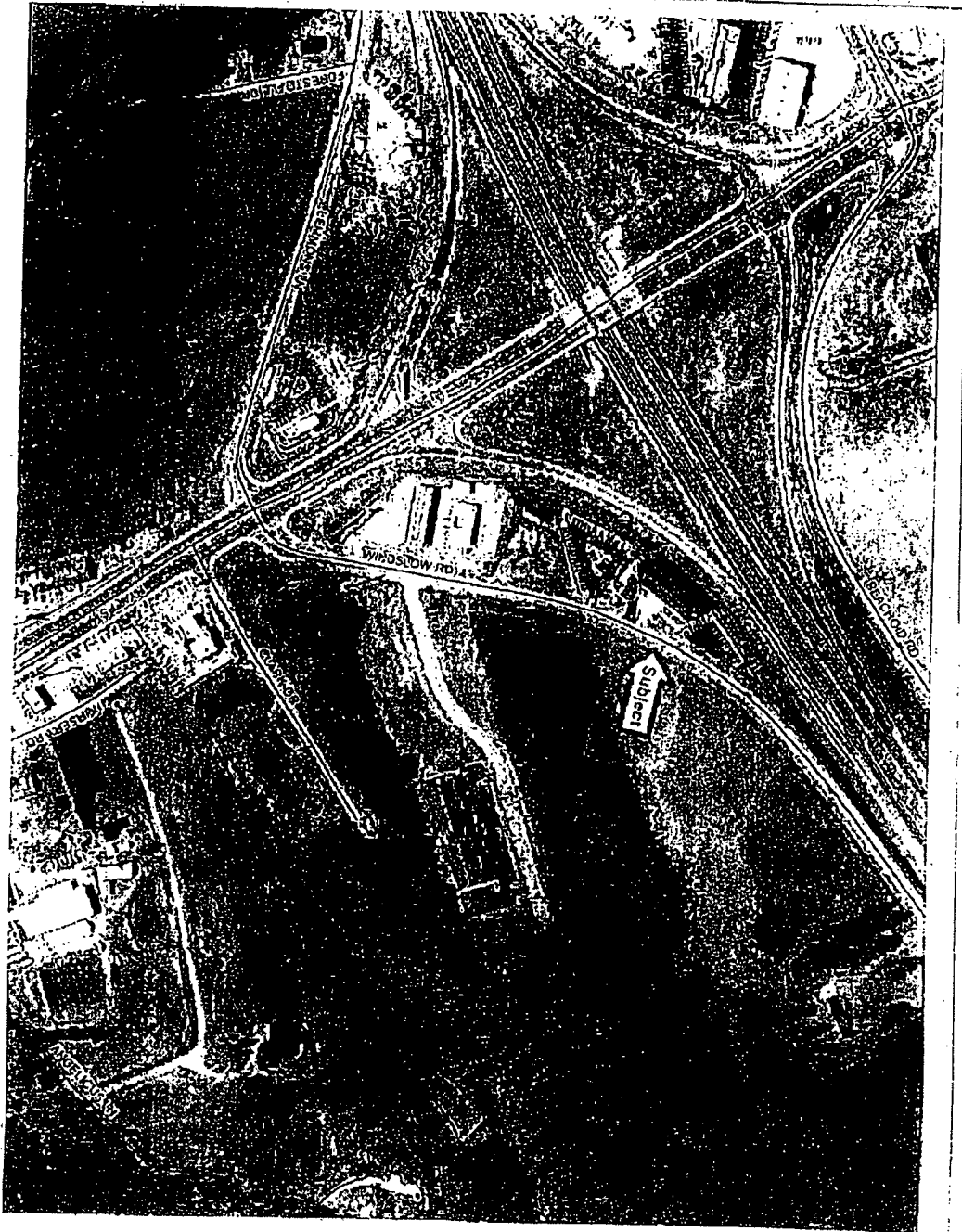
For 2008, the personal property taxes was valued at \$38,000. The assessed value was \$3,990 ($\$38,000 \times 10.5\%$). The 2008 personal property taxes for Cherokee County was \$1,127.18 ($\$3,990 \times .2825$) which have been paid.

City of Gaffney - Real Property Taxes

For 2008, subject was appraised for tax purposes for \$2,233,600. The assessed value was \$134,020 ($\$2,233,600 \times 6\%$). Subject is located in the City of Gaffney and the tax rate was 119.9 mills. The 2008 real property taxes for the City of Gaffney was \$16,069.00 ($\$134,020 \times 119.9$) which have been paid.

The total city and county personal and real property taxes were \$55,535.23.

AERIAL MAP



ZONING AND RESTRICTIONS

Subject is located in the City of Gaffney and is zoned GC – General Commercial District. It is the intent of this section that the GC Zoning District be developed and reserved for general business purposes. Hotels and motels are permitted in this zoning district.

In the Addenda of this report is nine pages from the City of Gaffney Zoning Department regarding GC – General Commercial District permitted uses, condition uses, other requirements and Appendix C (specific uses).

AREA DATA

Cherokee county is a county located in the upstate region of South Carolina adjoining the state of North Carolina to the north, York County on its east, Union County on its south, and Spartanburg County on the west. Gaffney, the county seat, is located just midway between the metropolitan cities of Greenville, South Carolina and Charlotte, North Carolina. The county was formed in 1897 from parts of York, Union and Spartanburg Counties. According to the 2008 United States Census, the county's population was 54,394.

Gaffney and Blacksburg each are operated under a Mayor-City Council form of government. The county is governed by a nine-member County Commission. The

Cherokee County Commissioners are elected by townships, and serve six-year concurrent terms.

The Board of Public Works is responsible for supplying the immediate and future needs in electrical power, water, and sewage disposal. The county is also served by Duke Power Company, Lockhart Power Company, and Broad River Electric Co-op. Natural gas is supplied by United Cities Service.

The climate in Cherokee County is temperate with a mean annual temperature of 61.1 degrees. The average temperature during January is 42.8 degrees, while the average July temperature is 79.0 degrees. The mean annual precipitation in Cherokee County is 47.78 inches, and the average growing season is 213 days.

Cherokee County is well known as a fertile peach production county. Over sixteen million pounds of fresh peaches are shipped out of the county annually. There are approximately 412 farms in the county, utilizing 77,000 acres of land. The average size farm in Cherokee County is 171 acres. Travelers know Gaffney from the Peachoid Peach water tower making note that Gaffney is the peach capital of South Carolina, located along Interstate 85. The Peachoid is a water tower shaped like a peach which some think as an erotic sculpture upon first view. It serves both artistic and practical functions.

Gaffney became a major center for the textile industry in South Carolina and was the backbone of the county's economy up and up until the 1980s. The population was 13,092 as of 2005. Despite the small amount of population growth, businesses and

companies continue to located within the city limits, especially along the bustling Floyd Baker Boulevard and Highway 105 and many other areas within the city limits; however, most population growth occurs outside the city limits.

In December, 2008 South Carolina's unemployment rate was 9.2 percent, a 0.6 percentage point increase from the November, 2008 8.6 percent rate. The unemployment rate for Cherokee County in 2008 was 10.4 percent.

The lifeline of Cherokee County, I-85 runs through the city limits of Gaffney, contributing to much of the growth along Floyd Baker Boulevard, the county's main thoroughfare, which bisects I-85. Much of the county's growth occurs along I-85. The county is also served by US Highway 29 which parallels I-85 and is mostly used for local traffic. Several other major South Carolina highways that serve the county are SC Highway 11, SC Highway 150, SC Highway 105, and SC Highway 18.

With no airports of its own, Cherokee County is served by Charlotte/Douglas International Airport and Greenville-Spartanburg International Airport. A study to determine the feasibility of building an airport in the county revealed that an airport is desperately needed in the county.

NEIGHBORHOOD DATA

The subject neighborhood is the area three blocks north of I-85 in the City of Gaffney.

Beginning three blocks north of I-85 is vacant land, then PC Mart (convenience store) with Domino's, Kangaroo convenience store/Burger King, Home & More, and Hamrick's. On the west side of SC 105 Hyatt Avenue is a Hampton Inn, Strawberry Hill U.S.A. and Gaffney Premium Outlets. Gaffney Premium Outlets have Adidas Aeropostales, American Eagle Outfitters, Ann Taylor Factory Store, Banana Republic Factory Store, BCBG Max Azria, Brooks Brothers Factory Store, Catherine's Plus Sizes, Chico's, Dressbarn, Eddie Bauer Outlet, Gap Outlet, Guess Factory Store, Haggar Clothing Company, Hanes Brands, J. Crew, Juicy Couture, Lane Bryant Outlet, Nautica, New York & Company, Nike Factory Store, Pac Sun, Polo Ralph Lauren, Rue 21, Soma Intimates, Tommy Hilfinger, Under Armor, Van Heusen, Wilson Leathers, Bass Shoes, Clarks Bostonian Crocs, Journeys, Nine West Outlet, Rack Room Shoes, Reebok, Sketchers, Stride Rite Keds, Sperry, timberland, Carter's (children's clothing), The Children's Place Outlet, Gymboree Outlet, Justice, Osh Kosh B'gosh, Strasburg Children, Conch, Gold Toe, Sunglass Hut, Kitchen Collection, Pottery Barn Outlet, Bare Essentials, Bath & Body Works, Boje, the Cosmetics Company Store, Custom Embroidery, Education Express, Ofelia's Hamlet, Perfunania, Vitamin World, Yankee Candle, Bristol Café, Festival Fruit and Nut, Great Steak & Potato Company, Villa Fresh Italian Kitchen, and Wok 'N roll. Adjacent to Gaffney Premium Outlets is Gaffney Entertainment Center which has ten cinemas, sixteen bowling lanes and Gaffney Grill.

South of I-85 on Hyatt Avenue is a Starbucks Coffee, Kangaroo Express/Dairy Queen and subject is located to the east of on Windslow Avenue. Red Roof is located on Windslow Avenue. Continuing south on Hyatt Avenue is Bronco Mexican Restaurant, Clock of Gaffney (restaurant), Waffle House, Subway, Pilot Travel Center with Arby's, Painter's Greenhouse, Cherokee County Sports Complex, vacant land, Donnie's Country Buffet, Iron City Pools, Spectal Industries, Auto & Wand car wash, vacant land, Carolina Foothills Federal Credit Union, Gibbs Cancer Center, Bennett Homes of Gaffney, Peachview Medical Park, Sunoco convenience store, vacant land, and continuing to the City of Gaffney is an industrial plant, offices and retail strips.

Water, sewer, telephone and electricity are all available in the subject neighborhood. Properties in the subject neighborhood should continue to be in demand due to location, accessibility to Interstate 85 and adequacy of utilities.

HISTORY OF THE PROPERTY

Subject is not listed, under contract or under option. The last sale of subject was from P.M.P., LLC to Tilbros, Inc. on May 6, 2008. The sales price was \$3,000,000 which included the land, improvements and furniture, fixtures and equipment. The hotel had been a Holiday Inn Express, but when it was sold on May 6, 2008, it no longer had a flag. According to Mrs. Tilva, they were open but with the bags on the signs and the renovation going on for conversion to a Sleep Inn. Their occupancy was very low. They opened on August 30, 2008 as a Sleep Inn hotel. So the hotel was

open with no flag for 3.75 months and four months as a Sleep Inn. Therefore, the effective months open is estimated at five months.

SITE DATA

Location - The subject is located on the north side of Windslow Avenue which is Interstate 85 frontage road. Subject is bounded on the north by Interstate 85 entrance ramp and Interstate 85. The street address is 843 Windslow Avenue, Gaffney, Cherokee County, South Carolina. The Tax Map number is 063-00-00-060.001.

Size - The site is irregular in shape and contains 1.27 acres. It has 475.51 feet on Windslow Avenue (I-85 Frontage Road), 212 feet on the west side and 658.64 feet on the north side along Interstate 85 entrance ramp.

Topography - Subject is at grade with Windslow Avenue and has a mild slope down to the rear.

Utilities - Water, sewer, and electricity is provided by the Gaffney Board of Public Works, and telephone is also available to the site.

Easements or Encroachments - No adverse easements or encroachments were noted during the inspection and none are assumed to exist.

Drainage - No drainage surveys were made available to the appraiser. The surface water drainage appears to be adequate.

Hazardous Waste - No Environmental Studies were furnished to the appraiser. The appraiser is not aware of any hazardous wastes, environmental hazards, endangered species or any contamination on the site. This appraisal and the appraised value is contingent that there are no environmental hazards, hazardous wastes, contamination, hazardous materials or endangered species on, or in any improvements on, the subject property. If such conditions are found to exist, the value conclusions will be affected and will need to be reconsidered.

FIRM Map (Flood Insurance Rate Map) - The appraiser has reviewed Flood Insurance Rate Map Community Panel 45021C0155D, revised September 16, 2011 (previous map dated August 3, 1981). According to this panel, subject is not located in a flood hazard area. Subject is located in Zone X which is designated as an area of minimal flooding.

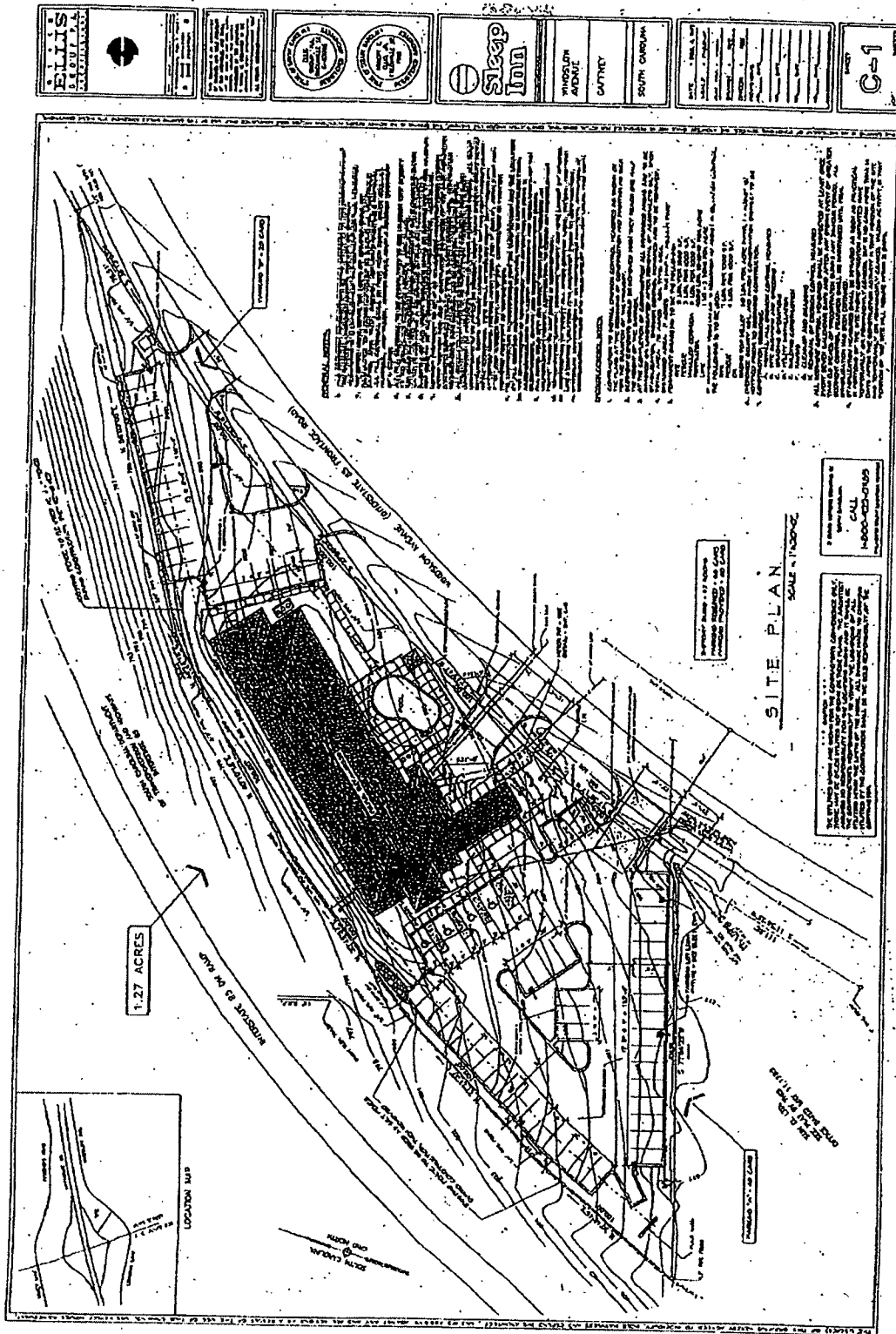
Soil - No soil tests were available to the appraiser. The site is improved with a three story hotel and there are one-story buildings in the immediate area; therefore, the existing soils appear to be capable of supporting the existing improvements.

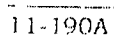
Accessibility - Ingress and egress to the site is available from Windslow Avenue by two curb cuts.

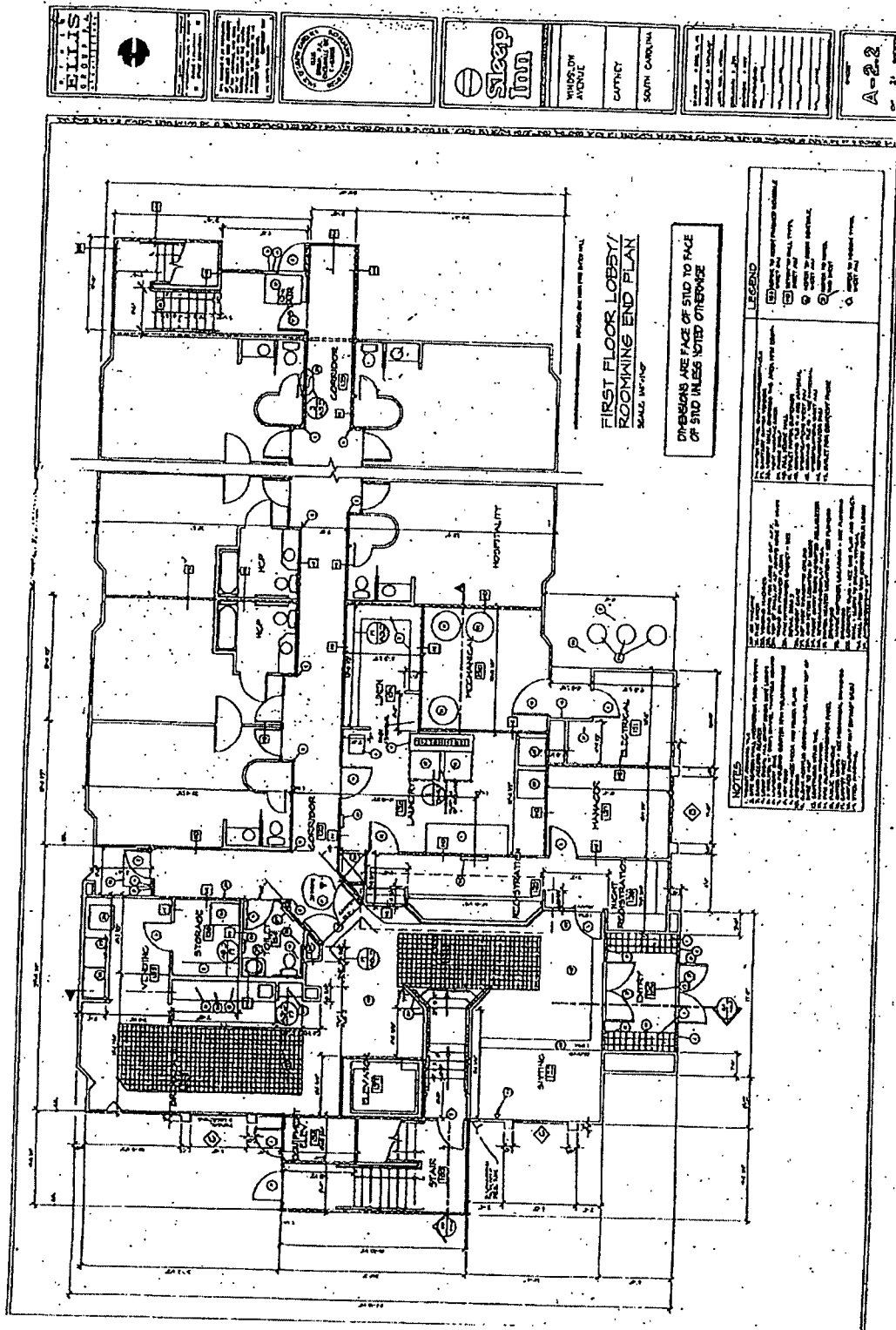
Parking - There are sixty-eight parking spaces including four handicap spaces.

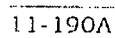
Conclusion - The subject site has good visibility from Interstate 85 and limited visibility from Hyatt Avenue. It is bounded on the north by Interstate 85 entrance ramp.

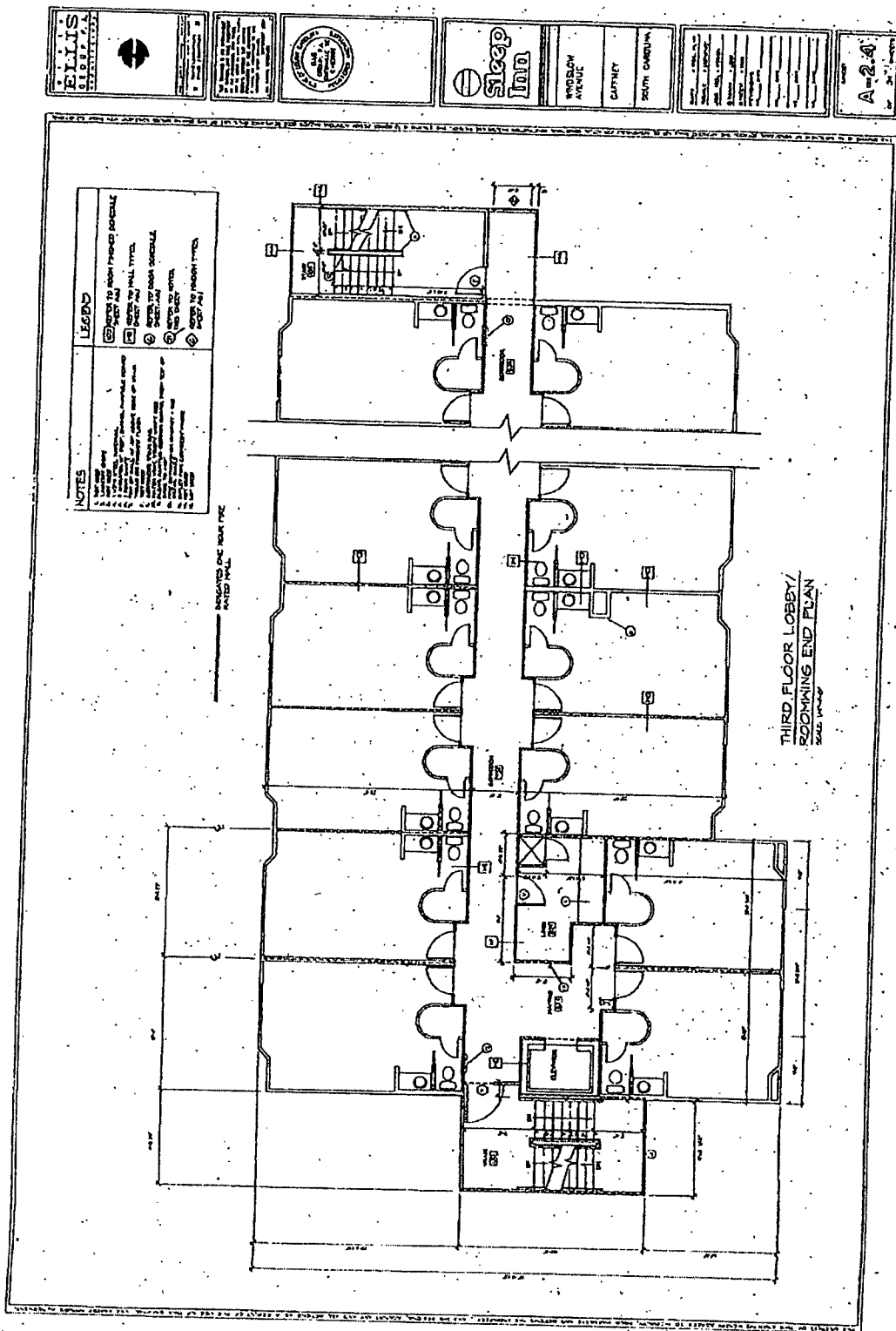


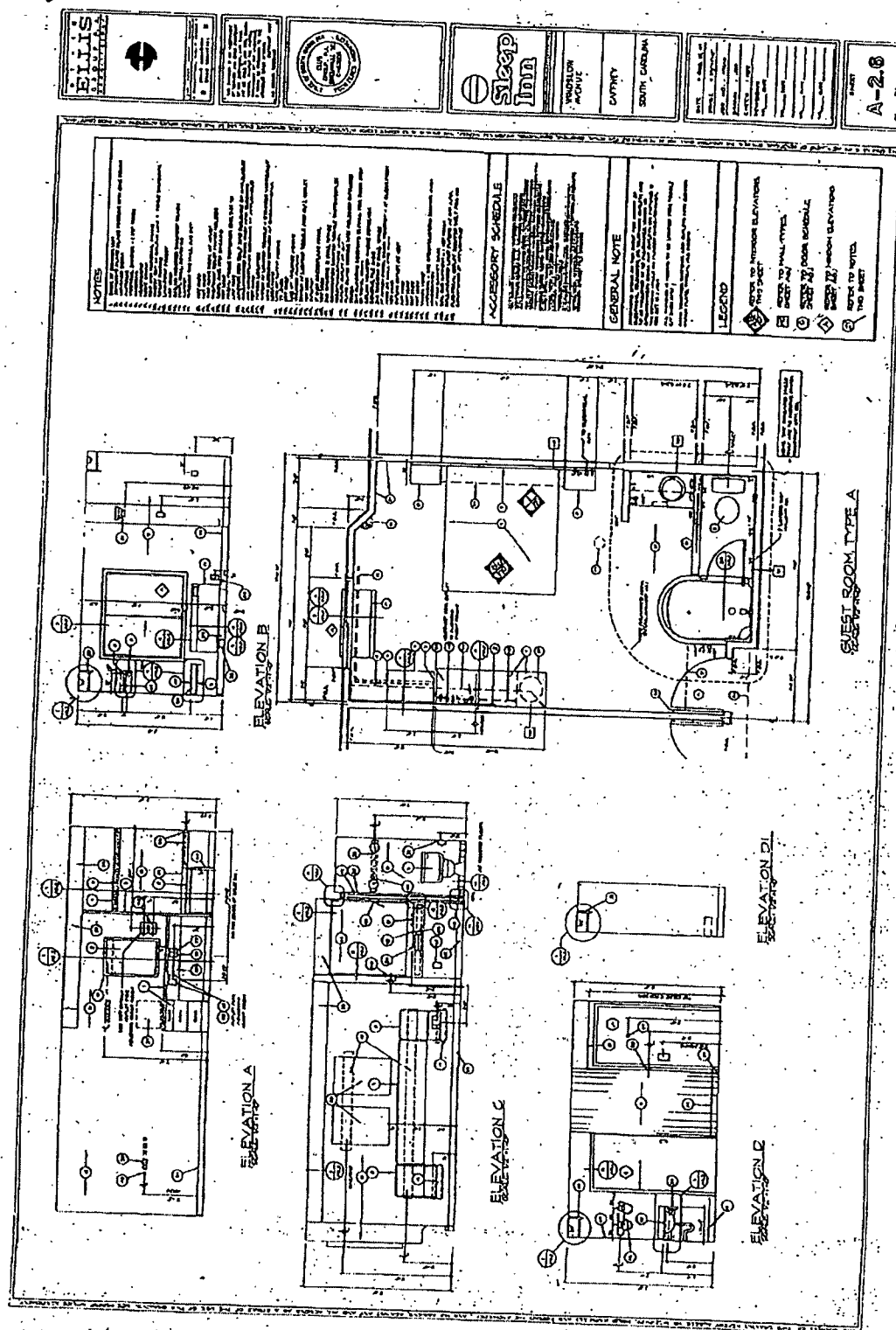


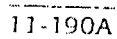


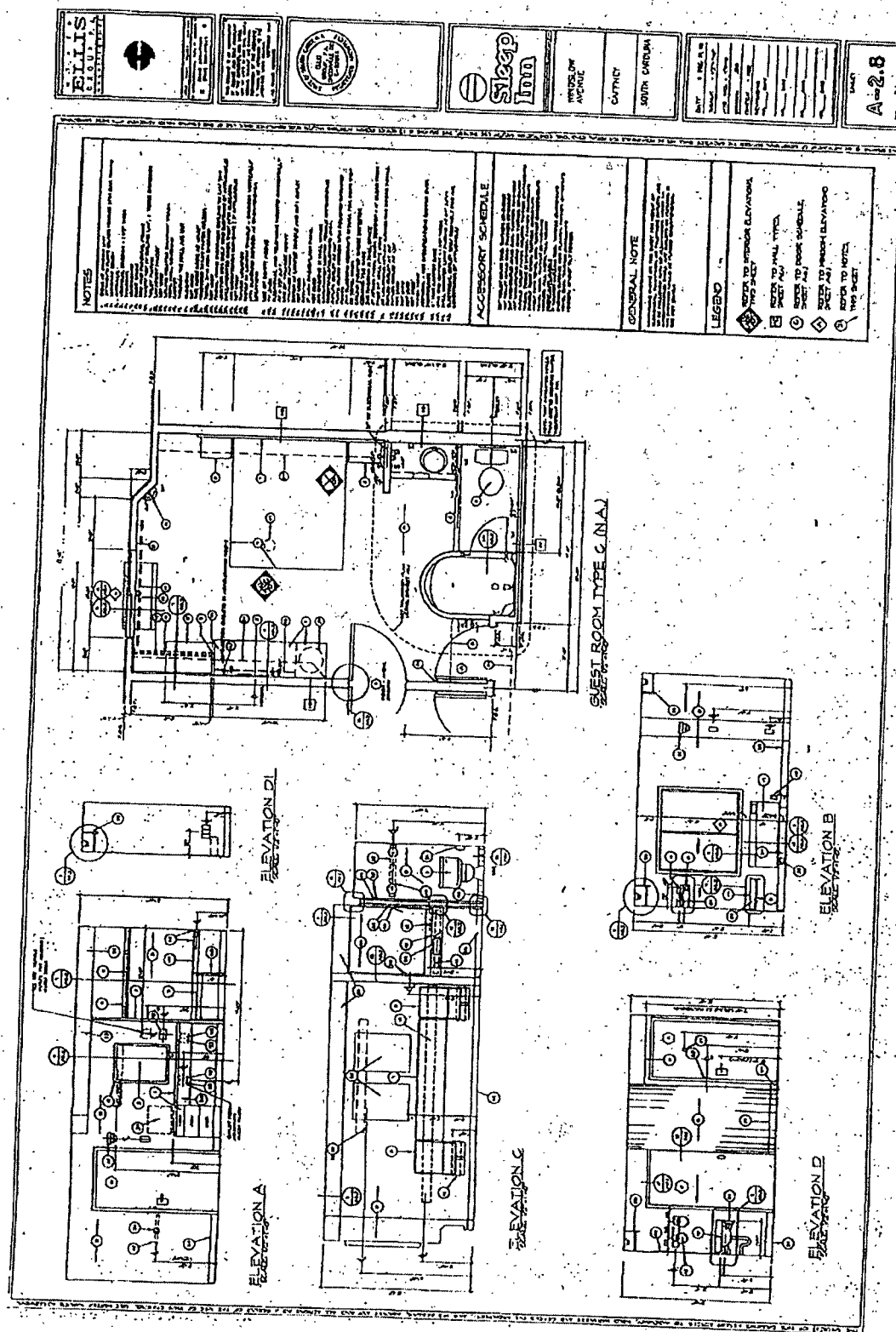


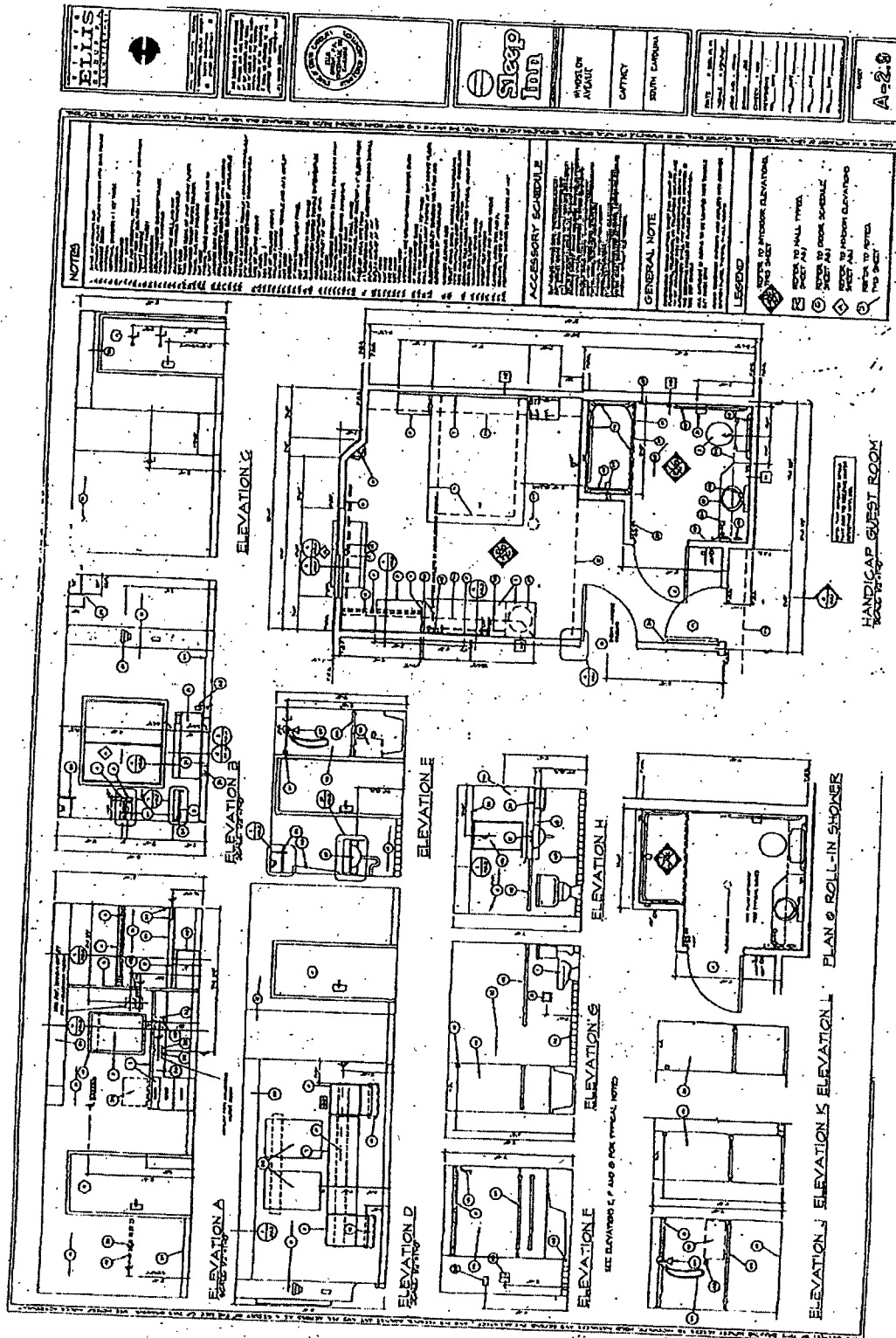






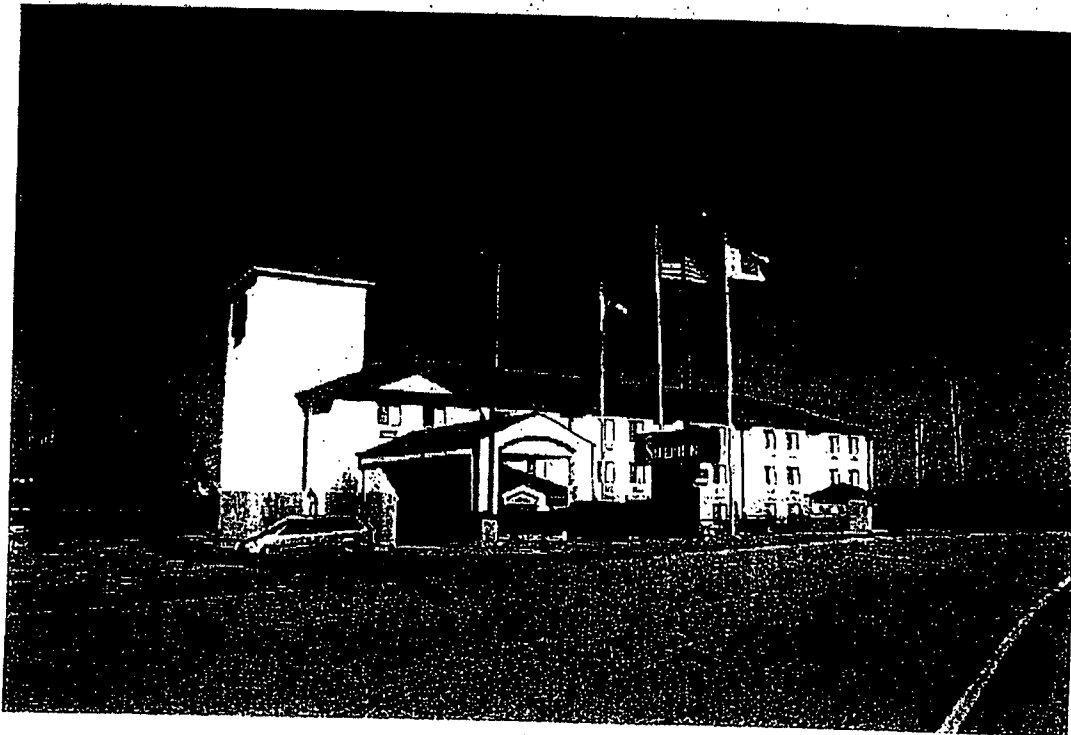








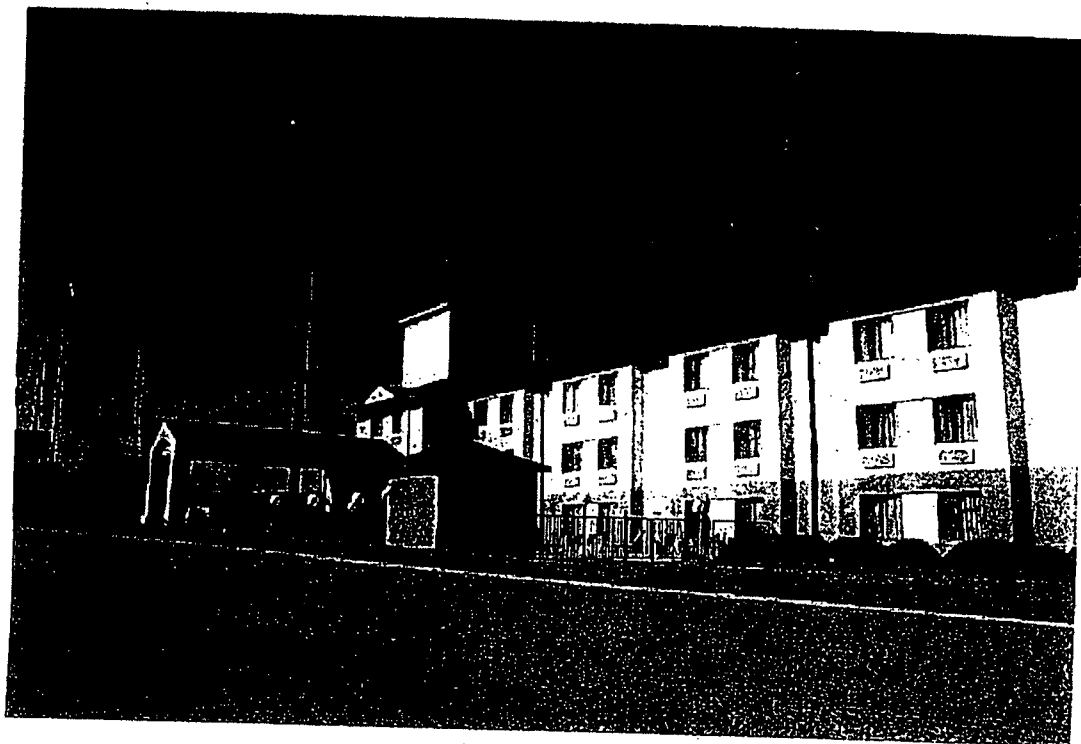
1. VIEW OF SUBJECT FROM WINDSLOW AVENUE (8441)



2. LEFT FRONT VIEW OF SUBJECT (8421)



3. FRONT VIEW SHOWING POOL (8422)



4. RIGHT FRONT VIEW OF SUBJECT (8423)



5. RIGHT SIDE AND FRONT OF SUBJECT (8424)



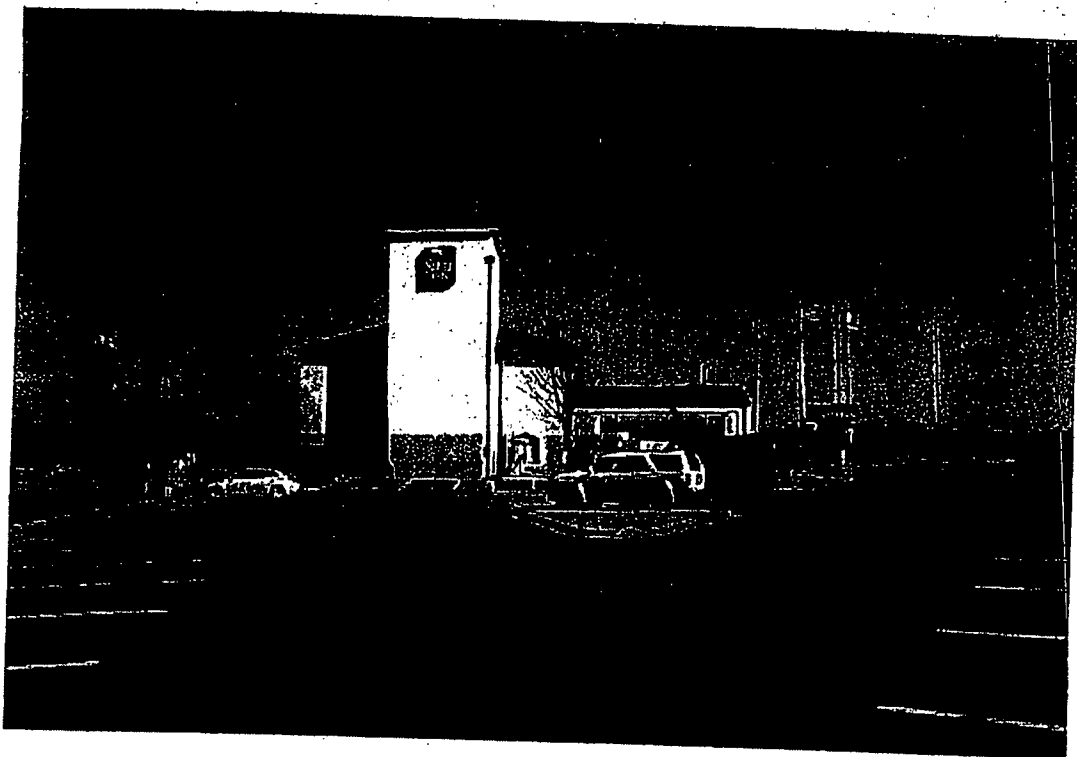
6. REAR VIEW OF SUBJECT (8425)



7. REAR VIEW OF SUBJECT SHOWING I-85 ON RAMP (8428)



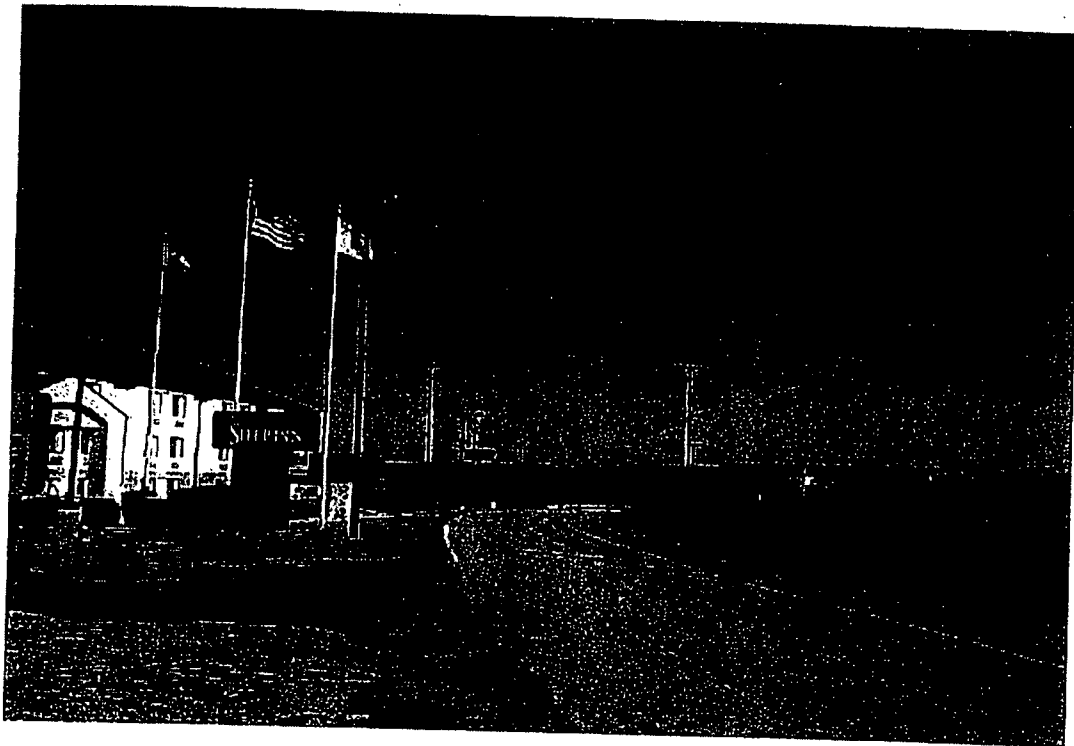
8. PARKING AREA ON RIGHT SIDE (8426)



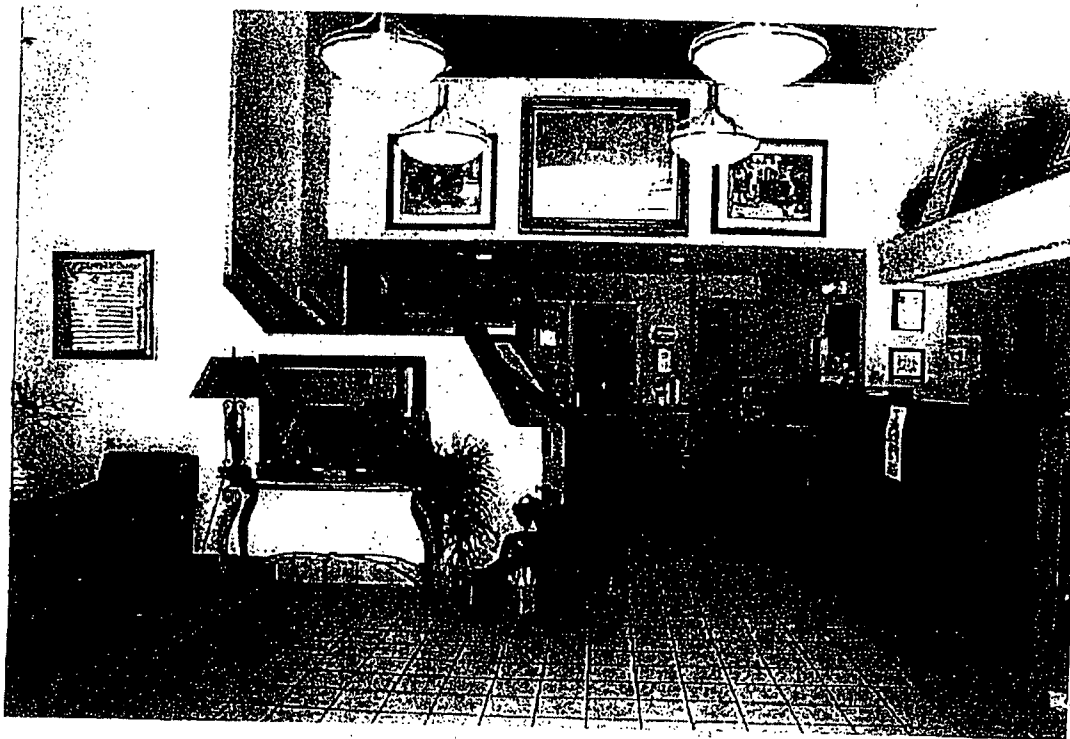
9. LEFT SIDE OF SUBJECT SHOWING PARKING ON LEFT SIDE (8427)



10. VIEW OF PARKING AREA ON LEFT SIDE AND I-85 ON RAMP (8419)



11. LOOKING EAST ON WINDSLOW AVE., SUBJECT IS ON LEFT (8420)



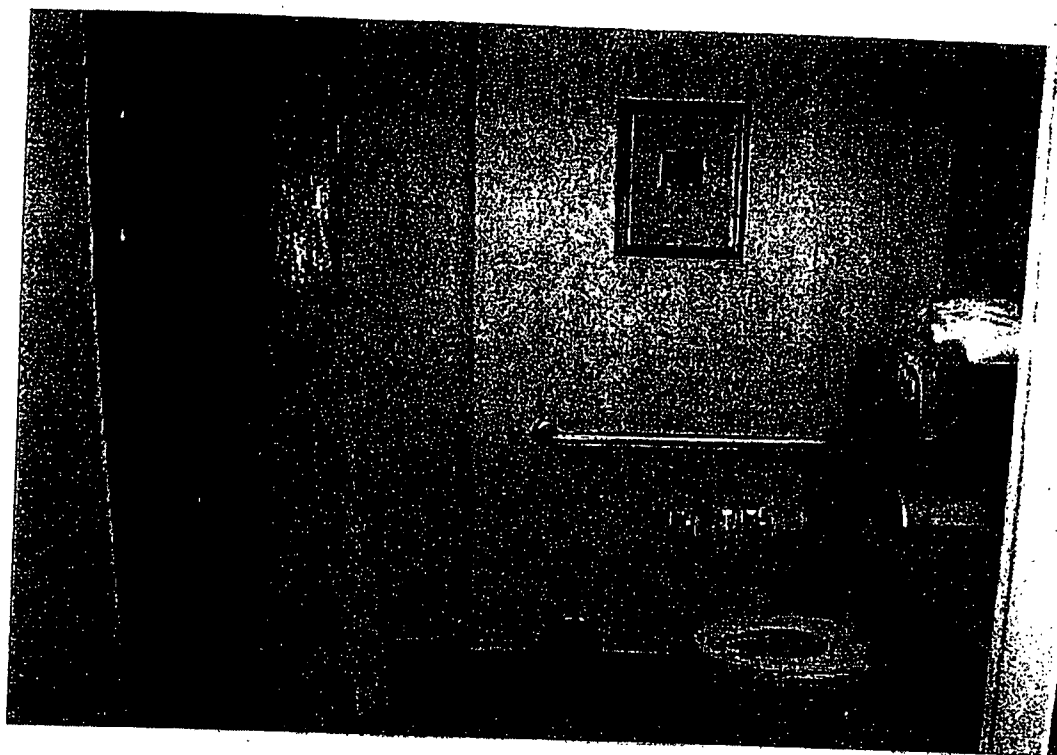
12. VIEW OF LOBBY (8429)



13. FITNESS CENTER (8430)



14. ROOM 112 (8431)



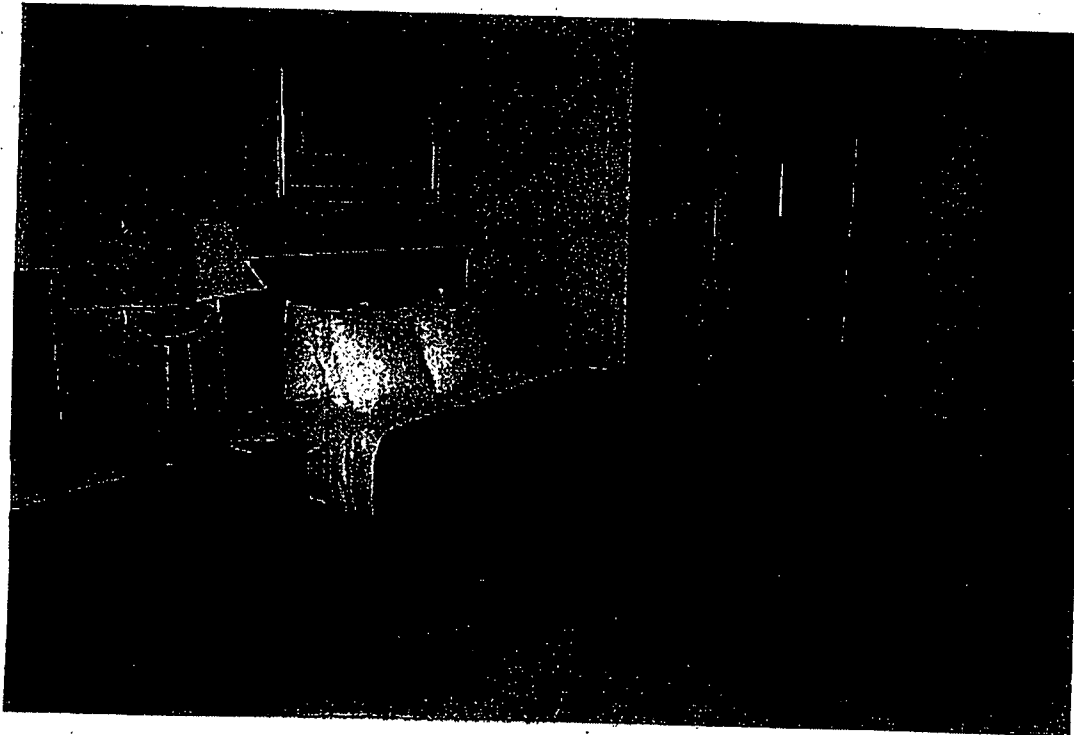
15. ROOM 112 BATH (8432)



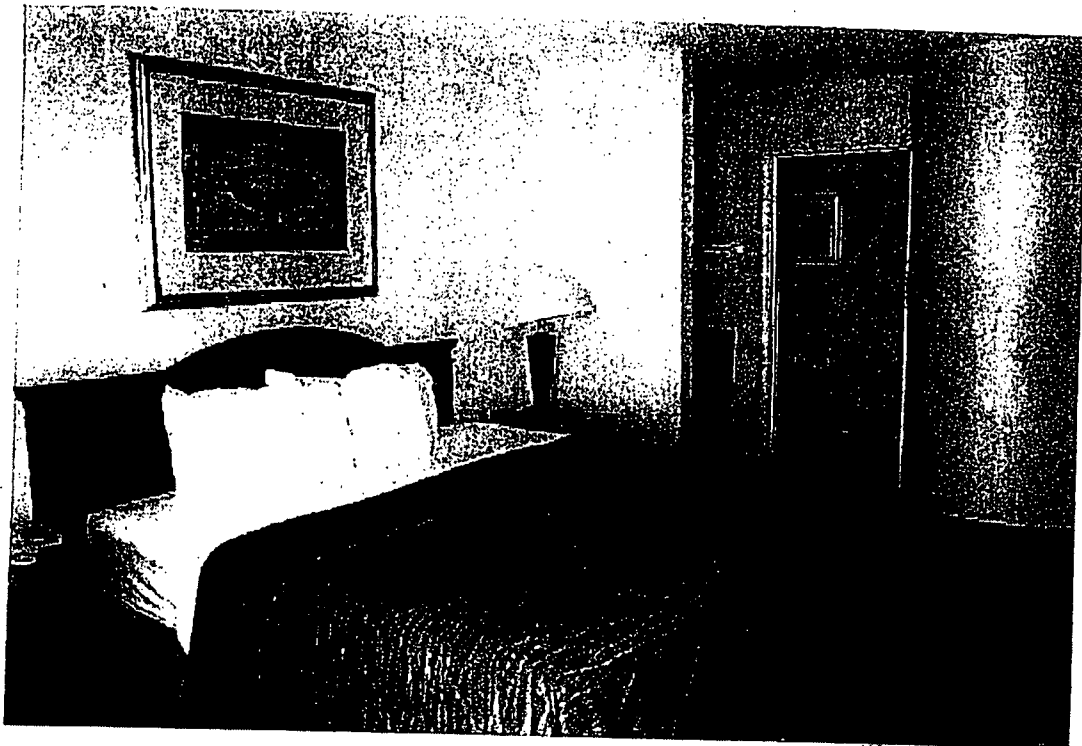
16. ROOM 120 (8433)



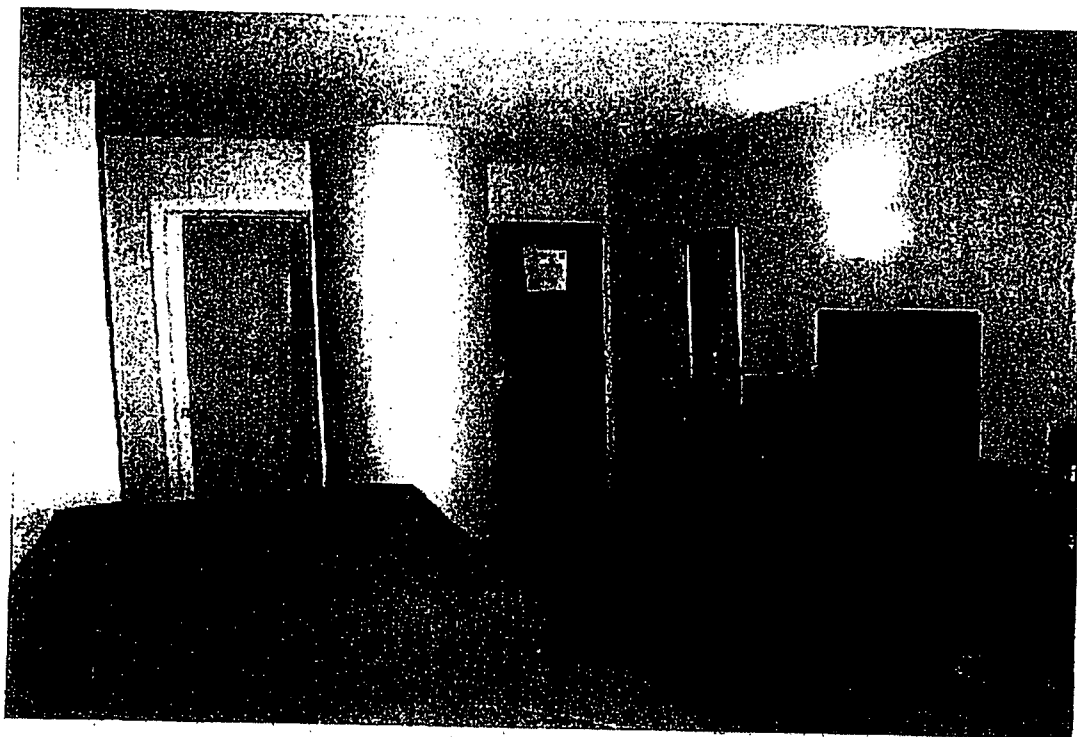
17. ROOM 120 BATH (8434)



18. ROOM 223 (8435)



19. ROOM 216 (8436)



20. ROOM 303 (8437)



21. ROOM 306 (8438)



22. MEETING ROOM (ROOM 110) (8439)

DESCRIPTION OF IMPROVEMENTS

The improvements include a three-story sixty-room limited service Sleep Inn hotel. The exterior is synthetic stucco over wood frame. The roof is asphalt shingle. The interior walls are drywall and the lobby entry and breakfast room are ceramic tile. The stairwells, halls and hotel rooms are carpet. The baths have ceramic tile floors. The hotel rooms are heated and cooled by Carrier through-the-wall heat pumps. There are central units for heating and cooling the lobby and breakfast room.

The hotel contains 25,174 square feet, per the plans, and has an outdoor pool with a 99 square foot pool equipment room. The hotel has a lobby with a desk for a business center, and a breakfast room. The improvement is typical of a limited service hotel built in 1999. There is one Dover elevator with 2,500 pound capacity and there is a stairwell on the left and right ends of the hotel. This hotel backs up to the on ramp of Interstate 85 which causes some traffic noise on the north side rooms.

On the first floor there is a housekeeping room, a meeting room (Room 110), a fitness center/guest laundry (next to Room 107) and fifteen guest rooms.

On the second floor there is a housekeeping room, a drink machine and ice machine area, and twenty-one guest rooms.

On the third floor there are twenty-four guest rooms.

There are forty rooms with two queen beds, fifteen rooms with one king bed, three handicap rooms with one queen bed, and two rooms with one queen bed. In each room there is a desk, flat screen television, a 3.6 cubic foot refrigerator, a microwave, an iron and an ironing board.

Complimentary breakfast is served daily in the breakfast room. Amenities include free parking, as well as free local calls. There is a charge for long distance calls. The hotel has a sprinkler system and smoke detectors in each room.

HIGHEST AND BEST USE

Highest and Best Use is defined as, "The reasonably probable and legal use of vacant land or an improved property, which is physically possible, appropriately supported, financially feasible, and that results in the highest value." The principle of Highest and Best Use may be applied to the land as though vacant and available for its Highest and Best Use or to the property as improved. When analyzing the Highest and Best use of a property, the potential use must meet all four of the following tests:

- Is the use:
- A. Legally Permitted?
 - B. Physically Possible?
 - C. Financially Feasible?
 - D. Will that use produce the maximum productivity?

The Highest and Best Use analysis in an appraisal report is shaped by competitive forces in the market and sets the stage for the analysis in the three approaches to value. In order to properly utilize these three approaches to value, the Highest and Best Use must be accurately interpreted.

HIGHEST AND BEST USE IF VACANT

Legally Permissible - Zoning regulations, deed restrictions and subdivision restrictions generally limit the use to which a vacant site can be developed. The subject property is located in the City of Gaffney and is zoned GC - General Commercial, which provides for general commercial uses including motels and hotels. The appraiser is unaware of any deed or legal restrictions that would limit the use or development of the subject site.

Physically Possible - The subject property is irregular in shape and contains 1.27 acres. It has 475.51 feet of frontage along Windslow Avenue. Water, sewer, electricity, and telephone are available to the subject property. There are no apparent problems with the soil which would render it unsuitable for a foundation structure (one already exists). The site has adequate size and shape to make it physically possible for some type of commercial development.

Financially Feasible - The feasibility of a development depends primarily on the demand for the use that is proper. Interstate 85 and Gaffney Premium Outlets are the major draw in the area and there is a demand in the area and there is a demand for retail, offices, restaurants, convenience store, drug stores, motel, hotels, and other commercial facilities. Subject is located near the interchange of I-85 and SC 105 Hyatt Avenue. Based on the surrounding land uses, it is the appraiser's opinion that improving the subject with a hotel/motel, or a restaurant catering to Interstate 85 would be financially feasible.

Maximally Productive - The most pertinent question in this analysis is: Which possible and permissible use will produce the greatest net return to the land for the longest period of time? Of all the possible uses that could be placed on the subject site, some type of destination oriented commercial use appears to be the most likely choice and is considered to provide the maximum rate of return.

Based on the four tests of Highest and Best Use, it is the appraiser's opinion that the Highest and Best Use for the subject property, if vacant, would be to improve with a motel/hotel, or a restaurant catering to Interstate 85.

HIGHEST AND BEST USE AS IMPROVED

The subject property consists of 1.27 acres of land and is improved with a sixty room limited service hotel. The site is zoned GC-General Commercial District which is intended to promote the "highest and best use" of land without negatively impacting surrounding land uses or environmental resources. Therefore, it appears that the subject's current use is legally permissible.

The improvements fit the site and there is adequate parking to meet the needs of the buildings. As such, the existing development is physically possible. The appraiser is not aware of any other uses that the subject property could be put to other than for the permitted uses that are covered under zoning and restrictions. Any other uses would probably provide a rental rate which would be less than what could be derived

from the use as a hotel facility. For these reasons, it is the appraiser's opinion that the current improvements are also financially feasible and maximally productive.

The Highest and Best Use, as improved, is for a limited service hotel.

MARKETING AND EXPOSURE TIME

The volume of sales in the greater Cherokee County/Gaffney market does not offer a clear, predictable marketing time for most commercial properties. The chief concern of marketing time arises when a property must be sold during a period of slow activity. Consequently, if there is little or no sales activity, then the marketing time may be predicted to be relatively long. The problem with using the marketing time for comparable sales is that it reflects past economic activity and may not relate to the current and near future economic climate. This method of estimating marketing time might work if supply and demand were in balance in perfect market conditions. If that were the case, there would be no need or desire to estimate marketing time.

It is the appraiser's opinion that the subject would have a marketing time of one to two years if listed for not more than 10% above the appraised value and an exposure time of one to two years.

As of December 31, 2008, it was extremely difficult to obtain financing or an acquisition of a hotel property such as the subject, if not impossible, during the relevant time period.

CURRENT ECONOMY

In 2008 the United States economy started to "slow down" and by the fourth quarter of 2008 the slow down became a global economy slow down. Headlines in the news was about the recession, the stock market plunge and the \$700 billion dollar bailout of Wall Street banks with sub-prime mortgages, etc. The entire state of South Carolina also saw the effect "from Wall Street to Main Street." Foreclosures are reaching all time highs and consumers are spending less on everything. These factors adversely affect consumer confidence including the travel/tourism industry.

The recently approved and proposed economic packages may, according to many, help the US economy. There is hope that this will improve consumer confidence and a freeing up of credit for banks which will allow for more business loans and consumer purchasers, etc. Some government officials have suggested that it could take several years for the economy to rebound to the 2005 and 2006 real estate levels. The bailout programs, along with other stimulus packages, will, hopefully, stimulate the economy and add credit and liquidity to the market. Gasoline price increased substantially since 2007 and subject is not a destination hotel; therefore, it is dependent on highway traffic.

APPROACHES TO VALUE

The appraisal process begins with an overview of the area and continues in an ever decreasing scope through Neighborhood Analysis, Site and Improvement Analysis to

focus on the Highest and Best Use and ultimate value of the appraised property. A study of the subject site, improvements and its environs provides the basis for which comparable properties are selected to compare to the subject, whether site sales, improved sales, or comparable rentals, and also serves to provide support for the most applicable of the three traditional approaches to value. The appraisal of real estate relies heavily on these three approaches to value, which are referred to as the Cost Approach, Sales Comparison Approach (sometimes called Market Approach), and the Income Capitalization Approach.

For improved properties, the Cost Approach begins with an estimate of the value of the site as if it were vacant and utilized to its Highest and Best Use. Added to this figure is the cost to replace the subject improvement at current construction prices less any accrued depreciation. The Cost Approach is based on the assumption that an informed purchaser would pay no more for a property than the cost of producing a substitute property with the same utility. This approach is particularly meaningful for improvements which are new or almost new. This approach is less meaningful for an older property and is less meaningful in the economic climate as of the valuation date when credit for new hotel construction was nearly impossible to obtain. Although depreciation in all forms can be extracted directly from the market, extreme care must be taken to select comparables which are similar to the subject in terms of age, condition, size and location.

The Sales Comparison Approach directly compares recent sales of similar properties to the total subject property. Whether vacant land or improved, the sales are sometime compared directly to the subject on a "package" basis. Gross sales price is di-

vided by square feet of building area of improved properties to arrive at an overall value for the land and building combined. For unimproved land, the gross sales price per acre or unit is expressed. It is also possible to compare other sales directly to the subject based on the relationship of gross or net income to sales price. This method closely duplicates the choices available to buyers in the market at the time of the appraisal and assumes that an informed purchaser will pay no more for a property than the cost of acquiring an existing, or substitute property with the same utility.

The Income Capitalization Approach looks at property value through the eyes of a typical investor. In this approach, typical rental income and its relationship to sales price is analyzed by using a capitalization rate which represents the ratio of sales price to net rental income obtained.

The final step in the appraisal process is to reconcile the estimates of value indicated by the three approaches into a final estimate of the property's worth. The greatest weight is given the approach to value which more nearly represents the actions of the typical purchaser in the market.

COST APPROACH

In the Cost Approach, the estimate of the replacement cost of the improvements will be made, from which will be subtracted depreciation due to wear and tear, design and plan, and neighborhood defects, if any, to arrive at an estimate of the depreciated cost of the improvements. The estimated market value of the land plus the estimated

value of the improvements will be added to the depreciated cost of the improvements to arrive at an indication of value by this approach.

Most appraisal literature recommends using the cost approach only for new properties, which have not been affected by the various forms of depreciation, and for unique or specialized improvements that have no comparable market or income potential.

The cost approach is seldom used to value existing hotels and motels because lodging facilities are particularly vulnerable to physical deterioration, functional changes, and uncontrollable external factors.

Sometimes a hotel/motel can suffer from functional and external obsolescence before its construction is finished. As the building and other improvements age and depreciate, the resultant loss in value becomes difficult to quantify. Estimating the impact of even minor forms of obsolescence may require unsupportable judgments that could undermine the credibility of the cost approach.

A more significant reason why this approach is not given more consideration in the valuation of hotels and motels is that its underlying assumptions do not reflect the investment rationale of typical hotel/motel buyers. Lodging facilities are income producing properties that are purchased to realize future profits. Replacement or reproduction cost has little bearing on an investment decision when the buyer is primarily concerned with the potential return on equity.

Because the cost approach does not reflect any of these income related consideration, but may require a number of highly speculative and unsubstantiated depreciation estimates, the approach was omitted.

SALES COMPARISON APPROACH

The Sales Comparison Approach is based on the assumption that an informed purchaser will pay no more for a property than the cost of acquiring an existing property with equal utility.

The sales comparison approach estimates the value of a property by comparing it to similar properties sold during the data collection period. To obtain a supportable estimate of value, the sales prices of comparable properties must be adjusted to reflect any dissimilarities between the comparables and the subject property.

The reliability of the sales comparison approach depends on three factors:

1. Availability of timely, comparable sales data,
2. Verification of sales data,
3. Degree of comparability, i.e. the extent of adjustment needed to account for the differences between the subject and the comparable property.

The sales comparison approach provides a useful value estimate for simple forms of real estate, such as vacant land and single family residences, where the properties are homogeneous and the adjustments are few, relatively simple to compute, and supported by market data. In the case of more complex investments such as

shopping centers, office buildings, restaurants, and lodging facilities, where the adjustments are numerous and more difficult to quantify and support, the sales comparison approach loses much of its reliability.

Unlike office buildings and shopping malls, most hotels and motels are essentially dissimilar from one another in type of hotel/motel operation, the quality and condition of physical improvements, the locational attributes, and the character of the local hotel/motel market's supply and demand. Numerous adjustments thus are required to render a sale comparable to a subject property. Most of these adjustments however, are typically difficult to support from the market and are difficult to estimate.

Several other circumstances can lessen the comparability of hotel/motel sales data. For example, the sale of a hotel/motel property may include an assumption by the purchaser of existing financing at nonmarket terms; a note may be taken back by a seller under duress; cash flow, equity, or debt service guarantees may exist; a partial interest in a property rather than an entire fee simple interest may be transferred; a leasehold or leased fee interest in a property subject to a nonmarket lease may be sold; and a property may be transferred as part of a package of several other properties in which the sales price of the particular comparable property may be merely an allocation of the whole.

Obtaining specific information on which to base adjustments for any of the previously cited differences can be extremely difficult. Even if the information is available, attempts to derive market-supported adjustments are, in general, merely speculative.

Hotel/motel investors typically do not employ the sales comparison approach in reaching their final purchase decisions. Various factors, such as the lack of timely comparable sales data, the numerous unsupportable adjustments that are necessary, and the general inability to determine the true financial terms and human motivations of comparable transactions often make the results of the sales comparison approach questionable. Although the sales comparison approach may provide a range of values to bracket and support the final estimate of value, any reliance beyond the establishment of broad parameters generally is not normally justified by the quality of data.

For estimation of the market value of a hotel/motel's real property components, the sales comparison approach is particularly cumbersome. Typical hotel/motel investors purchase hotels and motels in anticipation of income from the combination of the real property, personal property, and business components. Most sales of hotels and motels include the transfer of both the realty and the non-realty components, and the per-room price of even the most comparable sale is difficult to use as an indication of value for another hotel/motel's isolated real property component.

For example, hotels and motels routinely sell with personal property in place; thus the sales price for a typical hotel/motel includes such relatively short-lived items as furniture, fixtures, and equipment (FF&E), and an allocation must be made to the comparable sales prices in order to adjust for the personal property's inclusion.

The same is true of the business housed within a typical hotel or motel. Hotels and motels routinely transfer as going concerns, with buyers buying into the hotel/motel

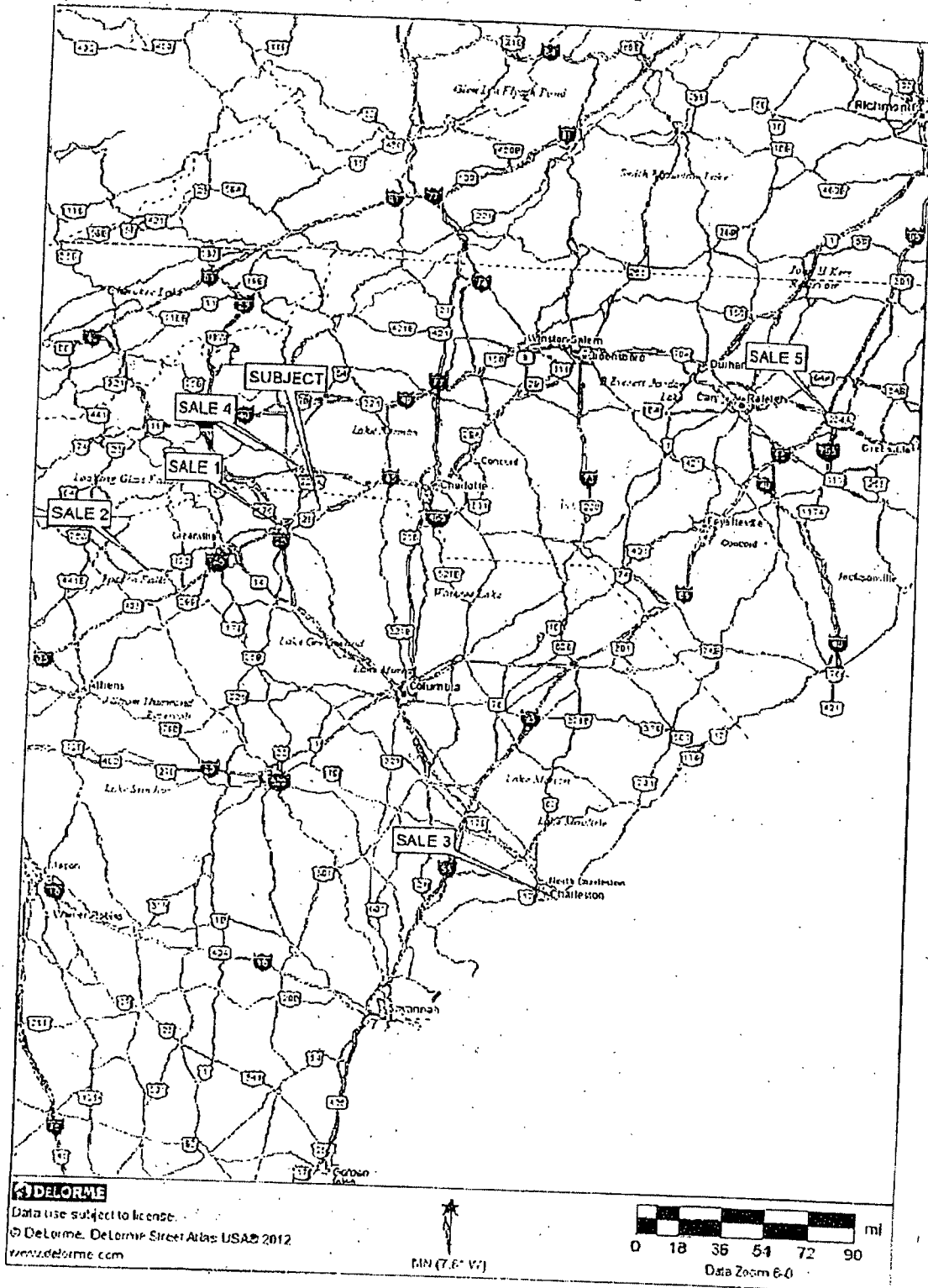
business that is operated on the premises and anticipating income from the continued operation of the hotel/motel business. This element of a hotel/motel's value, like the personal property, needs to be excluded from a hotel/motel's value when only the real property elements are to be considered, such as for ad valorem purposes. Another unsupportable adjustment to the comparable sales price would be required to account for the portion of the price that was paid for the going concern. As is the case for the personal property element, virtually no market data exist that can be used as a basis from which to derive an appropriate adjustment.

Another aspect of the Sales Comparison Approach utilizes the Gross Income Multiplier (GIM) which is the ratio of sales price of hotel/motel divided by the Gross Room Sales Income. The Gross Income Multiplier (GIM) as an indicator of value is reliable only if the comparables and the subject have similar profitability potential.

Hotel/motel investors typically do not employ the Sales Comparison Approach in making their purchase decisions. Many factors, including the lack of recent hotel and motel comparable sales data, the numerous unsupportable adjustments that are necessary, and the general inability to obtain the true financial terms and motivations of comparable transactions, often make the results of the Sales Comparison Approach questionable.

Sales are included to help determine an appropriate overall capitalization rates, but the sales comparison approach was not utilized since purchasers do not rely on the sales comparison approach in purchasing hotels/motels.

Lodging Sales Location Map



Lodging Sale No. 1

Property Identification

Record ID 26
Property Type Limited Service
Property Name Days Inn
Address 101 Outlet Road, Spartanburg, Spartanburg County,
South Carolina
Location I-26 & Exit 17(New Cut Road)
Tax ID 6-07-00-017.00& 017.12

Sale Data

Grantor Spartan Hospitality, Inc.
Grantee Arihant, Inc.
Sale Date January 02, 2008
Deed Book/Page 90K/315
Property Rights Fee Simple
Conditions of Sale Arms Length
Financing Cash to seller
Verification Other sources: Broker to Appraiser, Deed,
Confirmed by Joe Rosen

Sale Price \$2,000,000
Cash Equivalent \$2,000,000

Land Data
Land Size 2.410 Acres or 104,980 SF
Topography Generally level
Utilities All Available
Shape Irregular
Landscaping Good
Flood Info Not in a flood hazard zone

Lodging Sale No. 1 (Cont.)**General Physical Data****Gross SF** 46,102**Number Of Rooms** 82**Construction Type** Masonry & Stucco**Corridors** Exterior**Electrical** Adequate**HVAC** Heat pump through the wall**Stories** 2**Amenities** Outdoor Pool, Free Continental breakfast**Year Built** 1989**Condition** Average**Total FF&E****FF&E****Income Analysis****Average Daily Rate** \$39.00**Average Occupancy** 60%**Rate****Annual Gross Room** \$700,362**Revenue****Total Revenue** \$700,362**Gross Expenses** \$474,504**Net Operating Income** \$225,858**Indicators****Sale Price/Gross SF** \$43.38**Sale Price/Room** \$24,390**Expense Ratio** 67.75%**NOI/Room** \$2,754**Gross Rent Room** 2.86**Multiplier****Overall Cap Rate** 11.29%**Remarks**

This property is located at Exit 17 on I-26, north of Spartanburg, SC. It is a Limited Service motel in average overall condition.

Lodging Sale No. 2**Property Identification**

Record ID	58
Property Type	Limited Service
Property Name	Best Western
Address	511 U.S. Highway 123 Bypass, Seneca, Oconee County, South Carolina
Location	US Highway 123 Bypass
Tax ID	520-18-02-026

Sale Data

Grantor	Hari-Om Enterprises, LLC
Grantee	OM Sai, LLC
Sale Date	September 19, 2007
Deed Book/Page	1616/077
Verification	Allen McCravy (Appraiser-Stone & Associates; Other sources: Public Records, confirmed by Christopher D. Hill, Sharon Langley

Sale Price	\$2,627,500
Cash Equivalent	\$2,627,500

Land Data

Land Size	0.880 Acres or 38,333 SF
Zoning	Highway Commercial
Topography	Above grade sloping upward
Utilities	All available
Shape	Irregular

General Physical Data

Number Of Rooms	58
-----------------	----

Rooms

58

Corridors	Interior
HVAC	Through Wall units
Stories	3-stor
Amenities	Outdoor Pool
Year Built	2000
Condition	Good
Total FF&E	
FF&E	

Income Analysis

Average Daily Rate	\$64.00
Average Occupancy Rate	65%
Annual Gross Room Revenue	\$880,672

Lodging Sale No. 2 (Cont.)

Total Revenue	\$885,763
Gross Expenses	\$577,579
Net Operating Income	\$308,184

Indicators

Sale Price/Room	\$45,302
Expense Ratio	65.21%
NOI/Room	\$5,314
Gross Rent Room	2.98
Multiplier	
Overall Cap Rate	11.73%

Remarks

This is the sale of a 58-room Best Western hotel located on the US Highway 123 Bypass in Seneca, South Carolina. This is a 3-story interior corridor hotel that was constructed in 2000. The hotel was in good condition at the time of sale.

Lodging Sale No. 3**Property Identification**

Record ID	59
Property Type	Limited Service
Property Name	Masters Inn
Address	300 Wingo Way, Mount Pleasant, Charleston County, South Carolina 29464
Location	Mt. Pleasant hotel
Tax ID	514-13-00-070

Sale Data

Grantor	MEI 1 Properties, LP
Grantee	Supertel Limited Partnership, A VA. LP
Sale Date	May 16, 2007
Deed Book/Page	A627105
Recorded Plat	BG/134
Property Rights	Fee Simple
Verification	Charles Roberts (MEI 1 Properties; (912) 352-4493, February 07, 2008; Charlie Aimone (MEI 1 Properties), February 07, 2008; Other sources: Charleston Cty Rec'ds; Deed, Sharon Langley

Sale Price	\$4,300,000
Upward Adjustment	\$900,000 Est. Discount -20%
Adjusted Price	\$5,200,000

Land Data

Land Size	3.720 Acres or 162,043 SF
Topography	Level
Utilities	All Available
Shape	Irregular

General Physical Data

Number Of Rooms	120
------------------------	-----

Rooms

120

Construction Type	Block w/stucco or efis exterior
Corridors	Exterior
Electrical	Adeq.
Stories	2story
Amenities	Outdoor Pool, Laundry
Year Built	1986
Condition	Good
Total FF&E	
FF&E	

Lodging Sale No. 3 (Cont.)**Income Analysis**

Average Daily Rate	\$58.00
Average Occupancy Rate	65%
Annual Gross Room Revenue	\$1,651,260
Total Revenue	\$1,649,990
Gross Expenses	\$1,050,000 64%
Net Operating Income	\$599,990

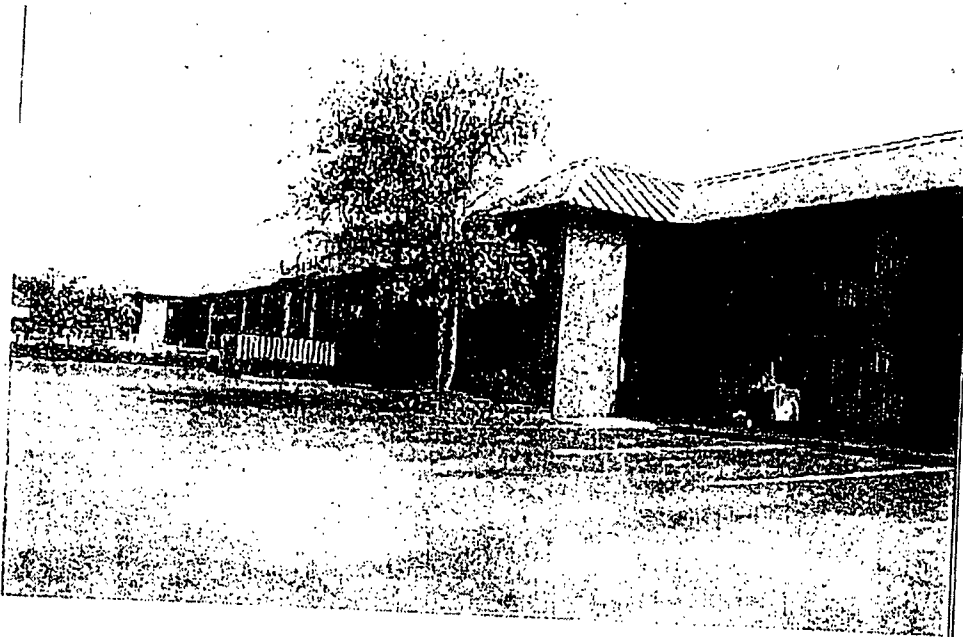
Indicators

Sale Price/Room	\$35,833
Expense Ratio	63.64%
NOI/Room	\$5,000
Gross Rent Room	2.61
Multiplier	
Overall Cap Rate	13.95%

Remarks

This hotel property was sold in a package of 15 total properties that were acquired by a Virginia REIT for \$40,000,000. The management company indicates that the stand alone value for this Mount Pleasant hotel location would have been much greater than the discounted price of \$4,300,000. Management indicates their estimate of fair market value for the property by itself would have been based on 3 to 3.25 times gross revenue, which was reportedly \$1,560,000 (actual) for '07 and was budgeted for \$1,676,000. Considering projections of gross revenue and actual revenue with a reasonable stabilized level of \$1,650,000 at 3.15 times gross revenue the estimated market value for the property without any discounting is around \$5,200,000. Management reports an NOI of \$600,000 to \$650,000 for this property at the time of sale indicating a capitalization rate of 11.5%. This would indicate an average daily rate of around \$58 at a conservative occupancy level of roughly 65%. Management further states the Mount Pleasant location would carry more of a premium in relation to other properties sold in the package.

Lodging Sale No. 4



Property Identification

Record ID	86
Property Type	Limited Service
Property Name	Comfort Inn
Address	205 Commercial Drive, Forest City, Rutherford County, North Carolina
Tax ID	1641904

Sale Data

Grantor	Blanton Investment Properties, LLC
Grantee	Shree Shivam, LLC
Sale Date	May 08, 2008
Deed Book/Page	959/739
Recorded Plat	29/75
Property Rights	Fee Simple
Conditions of Sale	Arms Length
Financing	Cash to seller
Verification	Other sources: Deed, Reliable source, Confirmed by Joe Rosen
Sale Price	\$2,100,000
Cash Equivalent	\$2,100,000

Lodging Sale No. 4 (Cont.)**Land Data**

Land Size	2.677 Acres or 116,610 SF
Zoning	C-3, Highway Business
Topography	At grade, generally level
Utilities	All
Dimensions	88.84'x230.37'x360.57'x324.58'
Shape	Almost rectangular
Landscaping	Average
Flood Info	Zone X, not in a flood hazard area

General Physical Data

Gross SF	12,208
Number Of Rooms	65
Construction Type	Brick
Corridors	Exterior
Electrical	Adequate
HVAC	through the wall heat pumps
Stories	2
Restaurant	None
Lounge	None
Amenities	Outdoor Pool
Year Built	1990
Condition	Average
Total FF&E	
FF&E	

Income Analysis

Total Revenue	\$747,338
Gross Expenses	\$504,995
Net Operating Income	\$242,343

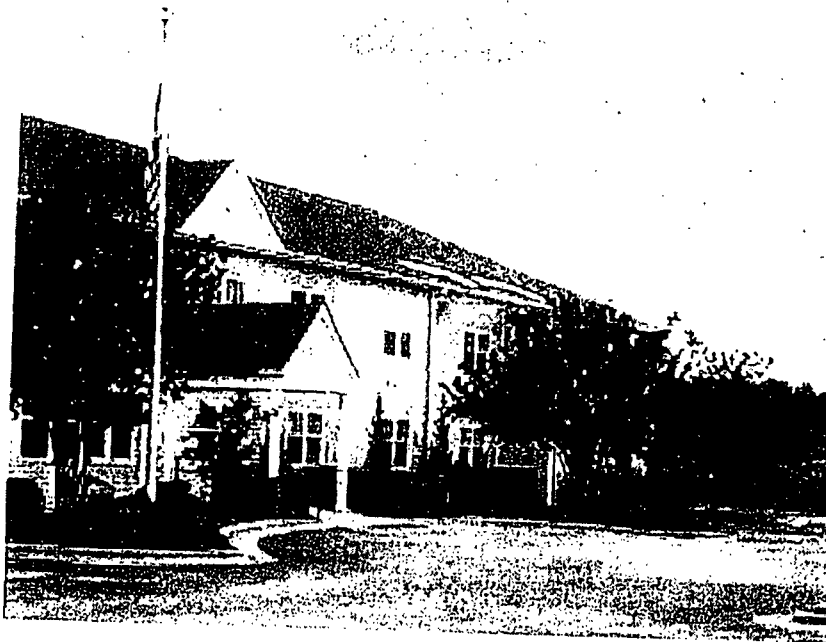
Indicators

Sale Price/Gross SF	\$172.02
Sale Price/Room	\$32,308
Expense Ratio	67.57%
NOI/Room	\$3,728
Overall Cap Rate	11.54%

Remarks

This motel is located in the Northeast corner of the intersection of US 74A and Oak Street, on the east side of the CBD of the town of Forest City, NC. After this sale, the motel was re-flagged as a Quality Inn and Suites.

Lodging Sale No. 5



Property Identification

Record ID	89
Property Type	Limited Service
Property Name	Microtel
Address	5013 Hayes Place, Wilson, Wilson County, North Carolina 27896
Tax ID	2793-45-4211.000

Sale Data

Grantor	MOA Hospitality, Inc.
Grantee	Mark E. Plante
Sale Date	December 01, 2008
Deed Book/Page	2345/239
Property Rights	Fee Simple
Financing	Cash-Market
Verification	Other sources: Third party to appraiser, Confirmed by Database Administrator

Sale Price	\$2,150,000
Cash Equivalent	\$2,150,000

Land Data

Land Size	1.820 Acres or 79,279 SF
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Lodging Sale No. 5 (Cont.)**General Physical Data**

Gross SF 26,246
 Number Of Rooms 60

Construction Type Frame/vinyl siding
 Corridors Interior
 Electrical Adequate
 HVAC Heat pumps
 Stories 2
 Meeting/Banquet Facilities No
 Restaurant No
 Lounge No
 Amenities Laundry
 Year Built 1997
 Condition Average

Total FF&E

FF&E

Income Analysis

Average Occupancy Rate 89%
 Total Revenue \$977,349
 Gross Expenses \$645,681 (66%)
 Net Operating Income \$331,668

Indicators

Sale Price/Gross SF \$81.92
 Sale Price/Room \$35,833
 Expense Ratio 66.06%
 NOI/Room \$5,528
 Overall Cap Rate 15.43%

Remarks

The buyer previously leased the motel and is exercising his option to purchase the property. The purchase price was established in November of 2006 when the lease commenced. The hotel market in November, 2006 was significantly different than the market as of December 31, 2009. The motel has been outperforming its competitive set in occupancy, but the ADR is well below the competitive set. The buyer did not look at the transaction based on a cap rate. The room multiplier is in line with industry averages. The indicated Overall Capitalization Rate was derived based on the annualized 2008 financials adjusted to include a 5% management fee and a 4% reserve allowance. The Gross Income Multiplier (GIM) is 2.20.

INCOME CAPITALIZATION APPROACH

The Income Capitalization Approach is based on the principle that market value is directly related to the future income capability of the property. To develop this approach, estimates are made of the subject's potential gross revenue, occupancy and expenses to derive an NOI. These estimates are usually based on historical operating figures and on the annual studies published by firms such as Pannell, Kerr, Forster, or in this case, Smith Travel Research (STR).

The potential NOI can be converted to a market estimate by the direct capitalization method. In the Direct Capitalization method, the estimated net income stream is divided by an appropriate capitalization rate for the indication of value.

The financial statement for subject has been organized in a manner consistent with the industry ratios published in Smith Travel. The revenue and expenses were then compared with the ratios shown in the 2009 Smith Travel Research Host Reports for Limited Service Hotels. Three categories from the STR report are presented; (1) Price Category Economy, (2) Location: Interstate, and (3) Size: Under 75 Rooms. The appraiser was furnished with the income and expenses from May 6, 2008 through December 31, 2008. The following is a reconstructed income and expense statement for 2008 as compared to the 2009 STR report (which is for the year of 2008) for the South Atlantic Region, Interstate Location, Economy Price Category and Under 75 Rooms Size.

	5 Months (Effective)	Annualized	
Room			
Total Revenue	<u>\$163,910</u>	<u>\$393,384</u>	100%
	\$163,910	\$393,384	100%
Expenses			
Purchases	15,186	36,446	9.26%
Equipment Rental	382	917	.233%
Wages*	34,280	54,848	13.94%
Credit Card Expenses	5,170	12,408	3.15%
Sales Tax	9,156	21,974	5.59%
Legal & Accounting*	1,275	2,040	0.519%
Advertising	2,202	5,285	1.34%
Telephone*	2,650	4,240	1.08%
Utilities*	14,259	22,814	5.8%
Insurance*	2,470	3,952	1.0%
Uniforms/Laundry	162	389	0.099%
Repairs & Maintenance	593	949	0.241%
Pest Control*	360	576	0.146%
Sanitation*	1,075	1,720	0.437%
Commissions	3,586	8,606	2.19%
Taxes - Licenses - Fees	12,423	12,423	3.16%
Property Taxes	---	55,535	14.11%
Total Expenses	<u>\$105,229</u>	<u>\$245,122</u>	62.31%
Net Operating Income		148,262	37.7%

* Based on 7.5 months

The appraiser considered the expense ratio of economy priced hotels, Interstate located hotels, hotels under 75 rooms and South Atlantic hotels. (Source: 2009 Smith Travel Research (STR) Host Study.) The NOI and expense ratio is as follows after adjusted for no franchise fees.

Type Hotel	NOI Ratio	Expense Ratio
Economy Priced Hotel	32.4%	67.6%
Interstate location	29.3%	70.7%
Size: Under 75 rooms	26.5%	73.5%
South Atlantic Hotel	29.2%	70.8%

The owner only owned this hotel for 7.5 months in 2008 and was under renovation from May through August, but was only renting a few rooms. Therefore, the appraiser utilized the information from the Star Report of 35.5% occupancy and 73% expenses.

After annualizing subject's effective five months of income and expense in 2008, the NOI ratio was 37.7% and the expense ratio is 62.31%. Considering the actual income and expenses and the Host Study, a 73% expense ratio will be utilized and the NOI ratio is 27%. In the addenda are copies of the Smith Travel Research (STR) Star Report for January, 2009. This comparables subject's occupancy rate, coverage, daily rate (ADR) and revenue per available room (Rev Par) to nearby competitive hotel properties.

According to the Smith Travel Research (STR) report, the subject's Average Daily Rate (ADR) from February, 2008 through January, 2009 is \$73.67 and the occupancy has been 35.5% for the previous 12 months excluding May through August when there was no flag and therefore, no occupancy on ADR is reported. It must be noted that subject had a Holiday Inn Express flag until May 1, 2008 so the occupancy and ADR is higher since it became a Sleep Inn on August 30, 2008.

When subject was sold, it did not have a flag until August 30, 2008. Based on the STR report, an ADR of \$73.67 and a 35.5% occupancy rate will be utilized in the approach.

A copy of the (STR) Smith Travel Research Monthly Star Report is located in the addenda.

Overall Capitalization Rate

By October, 2008 most banks were no longer making loans on hotels/motels including First Community Bank, Arthur State Bank, First Citizens Bank and Southern First Bank.

The overall capitalization rates indicated by sales are as follows:

Address	Flag	Sale Date	Cap Rate
1. 101 Outlet Road Spartanburg, SC	Days Inn	1/2/08	11.29%
2. 511 US Hwy 123 Bypass Seneca, SC	Best Western	9/19/07	11.73%
3. 300 Wingo Way Mt. Pleasant, SC	Masters Inn	5/16/07	13.95%
4. 205 Commercial Drive Forest City, NC	Comfort Inn	5/8/08	11.54%
5. 5013 Hayes Place Wilson, NC	Microtel	12/1/08	15.43%

Considering the capitalization rates from the five sales, and giving the 2008 sales the most weight, it is the appraiser's opinion that a 12% capitalization rate is indicated.

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PAGE 02

SLEEP INN
INCOME STATEMENT
 For the 1 Month and 12 Months Ended December 31, 2008

	1 Month Ended December 31, 2008	12 Months Ended December 31, 2008
Sales		
JOB REVENUE	\$ 40,548.16	\$ 183,008.64
Less Returns & Allowances	0.00	0.00
Total Sales	<u>40,548.16</u>	<u>183,008.64</u>
Cost of Goods Sold		
PURCHASES	2,588.58	16,186.45
EQUIPMENT RENTAL	0.00	382.50
WAGES	2,792.88	34,278.73
CREDITCARD EXPENSE	1,066.03	6,170.39
Total Cost of Goods Sold	<u>6,428.17</u>	<u>58,019.01</u>
Gross Profit	<u>34,121.09</u>	<u>124,989.63</u>
Operating Expenses		
SALES TAX	4,355.15	9,155.07
LEGAL & ACCOUNTING	1,275.00	1,276.00
ADVERTISING	1,000.00	2,202.00
VEHICLE EXPENSE	485.91	918.11
TELEPHONE	773.02	2,850.28
MOBILE PHONE	0.00	886.60
UTILITIES	3,556.31	14,258.53
INSURANCE	0.00	2,459.66
UNIFORMS OR LAUNDRY	0.00	101.81
REPAIRS & MAINTENANCE	550.00	893.25
SECURITY	0.00	2,970.03
BANK SERVICE CHARGE	0.00	2,681.43
INTEREST	12,864.61	34,830.30
PEST CONTROL	90.00	380.00
SANITATION	110.87	1,074.62
COMMISSIONS	877.73	3,686.55
TAXES-LICENSES-FEES	3,112.07	12,422.85
Total Operating Expenses	<u>26,130.87</u>	<u>92,688.83</u>
Operating Income (Loss)	<u>4,891.32</u>	<u>18,204.80</u>
Net Income (Loss)	<u>\$ 4,891.32</u>	<u>\$ 18,204.80</u>

Subject: Statement of Income and Expenses

Year: 2008

Total Rooms: 60

Occupied Rooms: 7,775 (60 X 365 X 35.5%)

Occupancy: 35.5%

Average Daily Rate: \$73.67

Revenue

\$73.67 (ADR) X 60 Rooms X 365 days \$1,613,373

X 35.5% Occupancy 572,747

X 73% expenses (418,105)

Net Income 154,642

Add: Reserves for replacement (1.4%) 8,018

Add: Property taxes (actual) 55,535

Add: Management fee (2.9%) 16,610

Net Income before Reserves, Property
Taxes, and Management Fee \$234,805

Derivation of Income Attributable to the Business or Going Concern

Gross Revenue	Second Tier Hotel Management Company.	Income Attributable to the Business or Going Concern
\$572,747 X	Base Management Fee	
	3%	\$17,182
Room Revenue	Royalty and Marketing Fee (Choice Hotels)	
\$572,747 X	7.6%	<u>43,529</u>
Total		\$60,711
Rounded to		\$60,700

Derivation on Return of FF&E

Stabilized Gross Revenue	Reserve for Replacement Percentage	Stabilized Return of FF&E
\$572,747 X	5%	\$28,637

Derivation on Return of FF&E

Overall Capitalization Rate	12.0%
Tax Rate on Personal Property per \$100	<u>4.2%</u>
Rate of Return on Personal Property	16.2%

Replacement Cost of the Hotel's FF&E \$38,000

Return on FF&E \$38,000 X 16.2% \$6,156

Derivation of Income Attributable to FF&E

Return of FF&E	\$28,637
Return on FF&E	<u>6,156</u>
Income Attributable to the FF&E	\$34,793
Rounded to	\$34,800

Derivation of Income Attributable to Real Property

Net Income Before Management Fee, Property Taxes, and Reserve for Replacement	\$234,805
Less Income Attributable to Business or Going Concern	(60,700)
Less Income Attributable to FF&E	<u>(34,800)</u>
Income Before Real Estate Taxes	\$139,305
Total Real Estate Taxes 2008 (per City & County)	<u>(55,535)</u>
Net Income After Real Estate Taxes	\$ 83,770

Divided by Overall Capitalization Rate 12%
 \$83,770 divided by 12% = \$698,083

Value Indication by the Income Approach of The Land and Improvements	\$698,083
Rounded to	\$698,000
The Value of the Land and Improvements is:	\$698,000
Business Value or Going Concern	60,700
Income Attributed to FF&E	<u>34,800</u>
Value Indication Including the Land, Improvements, Business Value and Return On and of FF&E	\$793,500

FINAL VALUE ESTIMATE

The Cost Approach and Sales Comparison Approach were not utilized since they were not applicable.

The Income Approach to Value was utilized in this report. The value indicated is as follows:

	Income Attributable To FF&E and Business Value	Land and Improvements
Income Capitalization Approach:	\$793,500	\$698,000

The purpose of this appraisal is to estimate the market value of the Fee Simple Interest of the subject property, as of December 31, 2008.

In the Income Capitalization Approach, the appraiser was provided with the financials which were from May 8, 2008 to December 31, 2008. Since the hotel did not have a flag from May to August, 2008, the appraiser utilized the Star Report of subject which was an ADR of \$73.67 and an occupancy rate of 35.5% and 73% expenses. This provided an indication of value of \$793,500 including income attributable to FF&E

and Business Value. This approach is also considered to provide a reliable indication of value. The value indication of the land and improvements by the Income Approach is \$698,000.

After analyzing the Income Capitalization Approach, it is the appraiser's opinion that the indicated Market Value of the Fee Simple Interest of the land and improvements as of December 31, 2008 is:

SIX HUNDRED NINETY EIGHT THOUSAND DOLLARS
(\$698,000)

The Business Value of the going concern of subject as of December 31, 2008 is estimated to be:

SIXTY THOUSAND SEVEN HUNDRED DOLLARS
(\$60,700)

The Derivation of Income attributable to FF&E as of December 31, 2008 is estimated to be:

THIRTY FOUR THOUSAND EIGHT HUNDRED DOLLARS
(\$34,800)

ADDENDA

DEFINITIONS

The following terminology is used throughout this report. All definitions cited were derived either from: The Dictionary of Real Estate Appraisal, Fifth Edition, published by the Appraisal Institute, 2010; by The Appraisal of Real Estate, Thirteenth Edition, the Appraisal Institute, 2008; or by the most recent edition of the Uniform Standards of Professional Appraisal Practice.

APPRAISAL: (noun) The act or process of developing an opinion of value; an opinion of value. (adjective) Of or pertaining to appraising and related functions such as appraisal practice or appraisal services.

APPRAISAL APPROACH: A systematic process of developing an opinion of value. Depending on the nature of the property and purposes of the assignment, three approaches may be applied: Sales Comparison, Income Capitalization, and Cost Approaches or variations thereof.

APPRAISAL PROCEDURE: The act, manner, and technique of conducting the steps of an appraisal method.

APPRAISAL TECHNIQUE: A technical method to develop an opinion of value; a synonym for procedure.

CAPITALIZATION: The conversion of income into value.

CAPITALIZATION RATE: A rate used to convert income into value.

CASH FLOW ANALYSIS: A study of the anticipated movement of cash into or out of an investment.

COST APPROACH: A set of procedures through which a value indication is derived for the fee simple interest in a property by estimating the current cost to construct a reproduction of, (or replacement for) the existing structure; including an entrepreneurial incentive, deducting depreciation from the total cost, and adding the estimated land value. Adjustments may then be made to the indicated fee simple value of the subject property to reflect the value of the property interest being appraised.

DATE OF THE REPORT: The date of the transmittal letter of a written report or the date a written report lacking a transmittal letter is prepared by the appraiser. The date of an oral report is the date it is communicated to or for the client. The date of the report may or may not be the same as the effective date of the appraisal.

DEPRECIATION: In appraising, a loss in property value from any cause; the difference between the cost of an improvement on the effective date of the appraisal and the market value of the improvement on the same date.

DIRECT CAPITALIZATION: A method used to convert an estimate of a single year's income expectancy into an indication of value in one direct step, either by dividing the income estimate by appropriate capitalization rate or by multiplying the income estimate by an appropriate factor. Indirect capitalization employs capitalization rates and multipliers extracted or developed from

market data. Only a single year's income is used. Yield and value changes are implied but not identified.

DISCOUNT RATE: A yield rate used to convert future payments or receipts into present value. The discount rate may or may not be the same and the internal rate of return (IRR) or yield rate depending on how it is extracted from the market and/or used in the analysis.

DISCOUNTED CASH FLOW (DCF) ANALYSIS: The procedure in which a discount rate is applied to a set of projected income streams and a reversion. The analyst specifies the quantity, variability, timing, and duration of the income streams as well as the quantity and timing of the reversion and discounts each to its present value at a specified yield rate. DCF analysis can be applied with any yield capitalization technique and may be performed on either a lease-by-lease or aggregate basis.

DISCOUNTING: A procedure used to convert periodic incomes, cash flows and reversions into present value; based on the assumption that benefits received in the future are worth less than the same benefits received now.

EFFECTIVE AGE: The age of property that is based on the amount of observed deterioration and obsolescence it has sustained which may be different from its chronological age.

EFFECTIVE DATE: The date at which the analyses, opinions and advice in an appraisal, review or consulting service apply. In a lease document, the date upon which the lease goes into effect.

EFFECTIVE DATE OF THE APPRAISAL: The date at which the value estimate in an appraisal applies which may or may not be the date of the inspection; the date of the market conditions that provide the context for the value estimate.

FREE SIMPLE ESTATE: Absolute ownership unencumbered by any other interest or estate, subject only to the limitations imposed by the governmental powers of taxation, eminent domain, police power, and escheat.

HIGHEST AND BEST USE: The reasonably probable and legal use of vacant land or an improved property, that is physically possible, appropriately supported, financially feasible, and that results in the highest value. The four criteria the highest and best use must meet are legal permissibility, physical possibility, financial feasibility, and maximum profitability.

HIGHEST AND BEST USE OF LAND OR A SITE AS THOUGH VACANT: Among all reasonable, alternative uses, the use that yields the highest present land value, after payments are made for labor, capital, and coordination. The use of a property based on the assumption that a parcel of land is vacant or can be made vacant by demolishing any improvements.

HIGHEST AND BEST USE OF PROPERTY AS IMPROVED: The use that should be made of a property as it exists. An existing property should be renovated or retained as is so long as it continues to contribute to the total market value of the property, or until the return from a new improvement would more than offset the cost of demolishing the existing building and constructing a new one.

INCOME CAPITALIZATION APPROACH: A set of procedures through which an appraiser derives a value indication for an income-producing property by converting its anticipated benefits (cash flows and reversions) into property value. This conversion can be accomplished in two ways. One year's income expectancy can be capitalized at a market-derived capitalization rate or at a capitalization rate that reflects a specified income pattern, return on investment, and change in the value of the investment. Alternatively, the annual cash flows for the holding period and the reversion can be discounted at a specified yield rate.

EASED FEE ESTATE: The ownership interest that the landlord or lessor maintains in a property under a lease with the rights of use and occupancy being conveyed or granted to a tenant or lessee. The ownership interest in a leased property.

LEASED FEE INTEREST: A freehold (ownership interest) where the possessory interest has been granted to another party by creation of a contractual landlord-tenant relationship (i.e., a lease).

LEASEHOLD INTEREST: The tenant's possessory interest created by a lease.

LEGAL DESCRIPTION: A description of land that identifies the real estate according to a system established or approved by law; an exact description that enables the real estate to be located and identified.

MARKET RENT: The most probable rent that a property should bring in a competitive and open market reflecting all conditions and restrictions of the specified lease agreement including permitted uses, use restrictions, expense obligations, term, concessions, renewal and purchase options and tenant improvements; the lessee and lessor each acting prudently and knowledgeably, and assuming consummation of a lease contract as of a specified date and the passing of the leasehold from lessor to lessee under conditions whereby:

1. Lessee and lessor are typically motivated;
2. Both parties are well informed or well advised, and acting in what they consider their own best interests;
3. A reasonable time is allowed for exposure in the open market;
4. The rent payment is made in terms of cash in U.S. dollars, and is expressed as an amount per time period consistent with the payment schedule of the lease contract. The rental amount represents the normal consideration for the property leased unaffected by special fees or concessions granted by anyone associated with the transaction.

MARKET VALUE: "The most probable price, as of a specified date, in cash, or in terms equivalent to cash or in other precisely revealed terms, for which the specified property rights should sell after reasonable exposure in a competitive market under all conditions requisite to a fair sale, with the buyer and seller each acting prudently and knowledgeably, and for self-interest and assuming that neither is under undue duress

Also:

The most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition are the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

1. buyer and seller are typically motivated;
2. both parties are well informed or well advised, and acting in what they consider their own best interests;
3. a reasonable time is allowed for exposure in the open market;
4. payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto; and
5. the price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.

REAL ESTATE: Physical land and appurtenances attached to the land, e.g., structures. An identified parcel or tract of land, including improvements, if any.

REAL PROPERTY: All interests, benefits, and rights inherent in the ownership of physical real estate; the bundle of rights with which the ownership of the real estate is endowed. In some states, real property is defined by statute and is synonymous with real estate.

REPORT: Any communication, written or oral, of an appraisal, appraisal review, or appraisal consulting service that is transmitted to the client upon completion of an assignment.

SALES COMPARISON APPROACH: A set of procedures in which a value indication is derived by comparing the property being appraised to similar properties that have been sold recently, applying appropriate units of comparison, and making adjustments to the sales prices of the comparables based on the elements of comparison. The sales comparison approach may be used to value improved properties, vacant land, or land being considered as though vacant; it is the most common and preferred method of land valuation when an adequate supply of comparable sales are available.

YIELD CAPITALIZATION: The capitalization method used to convert future benefits into present value by discounting each future benefit at an appropriate yield rate or by developing an overall rate that explicitly reflects the investment's income pattern, value change and yield rate.

QUALIFICATIONS OF JOSEPH B. ROSEN, MAI, SRA, ASA
REAL ESTATE APPRAISER AND CONSULTANT
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PROFESSIONAL DESIGNATIONS AND AFFILIATIONS

MAI - Designation - Appraisal Institute (Certificate No. 8941)
SRPA - Senior Real Property Appraiser membership in the Appraisal Institute
SRA - Senior Residential Appraiser membership in the Appraisal Institute
ASA - Accredited Senior Appraiser, American Society of Appraisers
RM - Residential Member in the Appraisal Institute (Certificate No. 2252)
State Certified General Real Estate Appraiser - South Carolina, Cert. # CG177
State Certified General Real Estate Appraiser - North Carolina, Cert. # A1786
State Certified General Real Property Appraiser - Georgia, Cert. # 6888
Licensed as a Real Estate Broker by the State of South Carolina
Past President (1988-89) SREA Chapter #194 of the Society of Real Estate Appraisers
Realtor Member of Columbia, South Carolina and National Board of Realtors.
Member of The Appraisal Section of the National Association of Realtors

EDUCATION

Univ. of S. C. Graduate 1977 - Bachelor of Science in Finance - Real Estate.
Recent Seminars: (2005 to Present)

Contact the appraiser for seminar list from 1978 through 2004

Easement Valuation, Course 403 02/05
Appraisal of Commercial Properties in Declining Markets 04/05
Appraising Convenience Stores 06/05
Real Estate Investment and Development 01/06
Highest & Best Use Analysis 4/06
National USPAP Update 5/05 and 4/06
Fair Housing 5/06
Reverse Condemnation 1/07
Uniform Appraisal Standards for Federal Land Acquisitions (16 Hrs.) 1/07
The Valuation of Wetlands 7/07
Analyzing Distressed Real Estate 1/08
Legal Terminology & Non Tax Statutes that Affect the Assessor 4/08
Spotlight on USPAP: Common Errors and Issues 7/08
Valuation of Conservation Easements 8/08
SC Real Property Reform Act of 2006 1/09
Appraisal Challenges: Declining Markets and Sales Concessions 1/09
Appraisal Curriculum Overview 3/09
National USPAP Update 5/09
Business Practices and Ethics 5/09
Appraising Distressed Commercial Real Estate 1/10
Spotlight on USPAP - Agreement for Services-Instructions 1/10
Understanding and Testing DCF Valuation Models - Pt. 1, 7/10
Residential Appraisal Update 2010: Staying Competent in a New Decade 1/27/11
The Lending World in Crisis: What Clients need Their Appraisers to Know 1/28/11
Advanced Spreadsheet Modeling for Valuation Applications 4/29/11
USPAP Update 5/12/11
Analyzing the Effects of Contamination on Real Property 7/21/11
USPAP Update 1/18/12
Fundamentals of Separating Real Property, Personal Property, Intangible Business Assets 3/1-2/12
Understand and Applying Litigation Skills 7/19/12
Conservation Easements and Your Taxes 1/31/13
Marketability Studies: Advanced Considerations and Applications 2/1/13
Appraisal Institute Courses Completed and passed exams:
Basic Appraisal Principles Methods and Techniques, Course I-A, 1979
Capitalization Theory and Techniques Part A and B, Course IBA and IBB, 1987
Residential Valuation Course 8-2, Standards of Professional Practice Part A, 1995; Part B, 1996; Part C, 1999
Report Writing and Valuation Analysis 2-2, 1989
Case Studies in Real Estate Valuation 2-1, 1990
Litigation Valuation Overview 700 - 1999
Condemnation Appraising: Advanced Topics & Applications 720 - 1999
Business Practices and Ethics, Course 420 - 2003

PROFESSIONAL EXPERIENCE

Real Estate Appraiser for Harvey J. Rosen, SRA, since July 1973. Assignments completed for banks, business firms, government agencies, corporations and individuals includes: lots, acreage, resort lots, condominiums, residences (560 SF to 12,000 SF), multi-family, office buildings, car washes, churches, medical buildings, radio towers, service stations, restaurants, convenience stores, warehouses, commercial properties, partial and total acquisitions, and easements.

Qualified and testified as Expert Witness on Real Estate Valuation before the Court of Common Pleas in Richland, Lexington and Kershaw Counties, Master's Court for Richland County, Family Court for Richland County and Lexington County and U.S. Bankruptcy Court in Columbia, South Carolina.

REPRESENTATIVE MAJOR CLIENTS SERVED

Arthur State Bank
Ameris Bank
Bank of America
BB&T

Capital Bank
First Citizens Bank
First Community Bank
Lexington Medical Center

South Carolina Bank & Trust
South Carolina Dept. Transportation
University of South Carolina
Wells Fargo Bank

Section 508. GC General Commercial District.

508.1 Intent of District. It is the intent of this Section that the GC Zoning District be developed and reserved for general business purposes. The regulations which apply within this district are designed to encourage the formation and continuance of a compatible and economically healthy environment for business, financial service and professional uses which benefit from being located in close proximity to each other; and to discourage any encroachment capable of adversely affecting the general commercial character of the district.

508.2 Permitted Uses. The following uses shall be permitted in any GC Zoning District. This list provides general use categories; for specific uses see Appendix "C."

- (a) General retail stores, provided that any outside storage of inventory, parts, machinery or equipment is completely enclosed by a solid stockade type wall or fence of at least six (6) feet in height. No storage of junk or salvage materials shall be permitted.
- (b) Service businesses, including - but not limited to plumbers, electricians, barbers, beauticians, repair services, photographers, etc., provided all services take place within an enclosed building and that any external storage of inventory, parts, machinery or equipment is completely enclosed by a solid

stockade type wall or fence of at least six feet in height.

- (c) Professional Offices
- (d) Banks and other financial institutions
- (e) Restaurants
- (f) Retail food stores, including general groceries, produce standards, bakeries, meat markets (without slaughtering on-site), etc.
- (g) Food preparation establishments for off-premise delivery.
- (h) Day care centers.
- (i) Cultural and community centers, including libraries, theaters, neighborhood recreation centers, churches and other religious facilities.
- (j) Public utility facilities, including offices, electric transformer stations, gas regulator stations, telephone switching stations, excluding transmission towers.
- (k) Schools.
- (l) Clinics, nursing and convalescence homes.
- (m) Veterinary offices with no external runs.
- (n) Kennels, as an accessory use to a veterinary office only, with no external runs.
- (o) Coin operated laundries, dry cleaning - excluding dry cleaning plants.
- (p) Funeral homes.
- (q) Auto parking lots.
- (r) Commercial printers.
- (s) Facilities of city, county, state or federal government.
- (t) Facilities of the Cherokee County School System or other public service districts.
- (u) Radio or television studios.
- (v) Community residential care facilities.

508.3 Conditional Uses. The following uses shall be permitted on a conditional basis in any GC Zoning District, subject to the conditions set forth in Article VIII, Section 804.

- (a) Automobile service station provided all fuel pumps are set back at least twenty-five (25) feet from the right-of-way line of the street; provided all fuel tanks are installed underground.
- (b) Garage or business for the repairing and servicing of motor vehicles provided all operations are conducted within a fully enclosed building; and provided there is no open storage of wrecked vehicles or dismantled parts.
- (c) Newspaper publishing plant provided that the requirements for parking, loading, and unloading conform to those for industrial buildings, as set forth in Article VII.
- (d) Car wash or washeteria provided an off-street paved parking area capable of accommodating not less than one-half of hourly vehicle washing capacity awaiting entrance to the washing process is suitably located and maintained

- on the premises (such space to contain at least two hundred (200) square feet per waiting vehicle; and, provided no safety hazard or impediment to traffic movement is created by the operation of such an establishment.
- (e) Animal hospital and/or boarding facility provided all board arrangements are maintained within a building and no noise connected with the operation of the facility is audible beyond the premises.
 - (f) Automobile, boat, and recreational vehicle dealership.
 - (g) Community hospitals or clinics including any functions which relate directly to the operation of the hospitals or clinics and are contained within the confines of said hospital or clinic, and provided such uses are in compliance with the provisions of Section 711 of this ordinance.
 - (h) Truck terminal, provided paved acceleration and deceleration lanes of at least ten (10) feet in width and one hundred (100) feet in length, respectively, are furnished and maintained where trucks enter at or leave terminal sites; and, provided sites for such facilities have direct access to major streets.
 - (i) Self storage mini-warehouse facilities, provided garage or bay doors are not visible from the public right-of-way or neighboring parcels, also provided that no retail or repair service business is conducted.
 - (j) A residential use as an accessory activity to any use permitted within the GC district, provided the residential use is housed within the primary commercial or office structure.
 - (k) Temporary uses in compliance with the provisions of Article VIII, Section 804.
 - (l) Residential dwelling, provided that the structure was originally constructed as a residential dwelling and was in use as a residential dwelling at the time the subject property was zoned commercial. [Editor's Note: The City of Gaffney amended Section 508.3(l) of the Zoning Ordinance on October 20, 2003.]

508.4 Other Requirements. Unless otherwise specified elsewhere in this Ordinance, uses permitted in GC General Commercial Zoning Districts shall be required to conform to the following standards:

- (a) Minimum Lot Area: Twenty thousand (20,000) square feet.
- (b) Minimum Lot Width measured at the Building Line: One Hundred (100) feet.
- (c) Minimum Front Yard measured from the nearest abutting street right-of-way line: Twenty-five (25) feet.
- (d) Minimum Side Yard: Not less than fifteen (15) feet for each side. Where the district abuts any residential zoning district not separated by a street right-of-way, a landscaped buffer strip, in compliance with Section 725 of this ordinance, of at least ten (10) feet in width shall be required. For side yard requirements pertaining to corner lots, see Article VII, Section 702 and 704.

If a common wall is used the ³² side setback shall be zero (0) feet.

(e) Minimum Rear Yard: Fifteen (15) feet. Where the district abuts any residential zoning district not separated by a public right-of-way, a landscaped buffer strip, in compliance with Section 725 of this ordinance, of at least ten (10) feet in width shall be required. For rear yard requirements pertaining to double frontage lots, see Article VII, Section 704. **Editor's Note:** The City of Gaffney amended Section 508.4(e) of the Zoning Ordinance on , 2008.]

(f) Maximum Building Height: Thirty-five (35) feet. For exceptions to height regulations, see Article VII, Section 721.

(g) Additional Requirements: Uses permitted in GC Zoning Districts shall meet all standards set forth in Article VII, pertaining to off-street parking, loading and other requirements.

(h) Signs: Signs permitted in GC Zoning Districts, including the conditions under which they must be located, are set forth in Article VI.

508.5 Special Requirements. Special Requirements for Devices Authorized by Section 16-19-60 of the South Carolina Code, known as Coin-Operated Nonpayout Machines with a Free Play Feature, and Section 12-21-2770 of the South Carolina Code, known as the Video Game Machines Act. The operation or placement of such devices must be in accordance with the following regulations:

(a) Location. Such devices may only be located in Section 508 GC (General Commercial), Section 510 (Limited Industrial), and Section 511 (Basic Industrial) Zoning Districts.

(b) Distance Requirements. Any location which operates or allows the operation of such devices may not be located three (300) hundred feet of a public or private elementary, middle, or secondary school; a public or private kindergarten; a public playground or park; a public vocational or trade school or technical educational center; a public or private college or university; or house of worship. Measurement of such distances shall be in accordance with the standards promulgated by the South Carolina Department of Revenue or, in the absence of such standards, from threshold to threshold.

(c) Non-Conforming Uses.

(1) The operation of such devices in Zoning Districts other than those set forth hereinabove may continue, provided that, as of the Enforcement Date:

- a. Such devices were in lawful use at such location, and
- b. Such devices had valid City Licenses pursuant to Section 11-6-33(d)(2) of the Gaffney City Code, and

- 33.
- c. Such devices had valid State Licenses pursuant to Section 12-21-2770, known as the Video Game Machines Act, and
 - d. The business operating such devices had a valid City of Gaffney Business License.
- (2) Any person asserting a prior valid nonconforming use under the provisions of this Ordinance shall have the burden of establishing the same. The Zoning Administrator, Chief of Police, or other Public Official charged with enforcing the provisions of this Ordinance may require documentation and verification of such non-conforming use in accordance with the requirements of this Ordinance.
- (3) Operation of such devices at a location constituting a valid non-conforming use is discontinued for a period of six (6) months, the right to maintain such non-conforming use shall be deemed abandoned and forever waived.

Section 509. CC Core Commercial District.

509.1 Intent of District. The intent of the CC Core Commercial District is to encourage the maintenance of a centrally located trade and commercial service area and to provide for the orderly expansion of such uses.

509.2 Permitted Uses. The following uses shall be permitted in any CC Core Commercial District. This list provides general use categories; for specific uses see Appendix "C."

- (a) General retail stores, provided there is no outside storage of inventory, parts, machinery or equipment.
- (b) Service businesses, including - but not limited to plumbers, electricians, barbers, beauticians, repair services, photographers, etc., provided all services take place within an enclosed building and there is no external storage of inventory, parts, machinery or equipment.
- (c) Professional Offices
- (d) Banks and other financial institutions
- (e) Restaurants
- (f) Retail food stores, including general groceries, produce standards, bakeries, meat markets (without slaughtering on-site), etc.
- (g) Food preparation establishments for off-premise delivery.
- (h) Day care centers.
- (i) Cultural and community centers, including libraries, theaters, neighborhood recreation centers, churches and other religious facilities.
- (j) Public utility facilities, including offices, electric transformer stations, gas regulator stations, telephone switching stations, excluding transmission towers.

Appendix C

Permitted Uses by Zoning Classification

Many uses listed are conditional or have other specific regulations applied. See the appropriate provision within the ordinance for conditions and development specification.

R-20: Single Family Residential, Minimum lot size 20,000 square feet.

Agricultural Uses

- Agricultural operations, non-commercial, excluding poultry and livestock
- Horticultural operations, non-commercial
- Nurseries, non-commercial

Residential Uses

- Accessory uses
- Customary Home occupations
- Single Family Dwelling units
- Mobile Homes

Educational Uses

- Educational facilities of the State of South Carolina or the Cherokee County School System.
- Preschools, Kindergarten (private)
- Private schools, kindergarten through grade 12
- Day care centers

Recreational Uses

- Golf courses, unlighted
- Neighborhood recreation centers, developed or undeveloped
- Parks or recreational areas operated by the US Government, State of South Carolina, County of Cherokee, or the City of Gaffney. Facilities of any federal, state, county or city chartered organization or special district.

Community, Public, Semi-Public, Cultural Uses

- Churches, synagogues, temples, or other places of worship, to include facility offices, but not to include affiliated schools or day care centers.
- Cemeteries, graveyards, mausoleums
- Facilities and buildings of the federal government, government of the State of South Carolina, County of Cherokee, or the City of Gaffney. Facilities of any federal, state, county, or city chartered organization or special district.

Community, Public, Semi-Public, Cultural Uses

Art galleries

Churches, synagogues, temples, or other places of worship, to include facility offices, but not to include affiliated schools or day care centers.

Cemeteries, graveyards, mausoleums

Facilities and buildings of the federal government, government of the State of South Carolina, County of Cherokee, or the City of Gaffney. Facilities of any federal, state, county, or city chartered organization or special district.

Facilities of Civic, fraternal, or charitable organization

Museums

Utility Sub-Stations, Switching Stations

Buildings owned or leased by the City of Gaffney, County of Cherokee, or School District of Cherokee County for governmental purposes, without external storage.

GC: General Commercial

Agricultural Uses

Agricultural operations, commercial

Horticultural operations, commercial

Nurseries, commercial

Kennels, as an accessory to a veterinarian office, without external runs

Kennels, without external runs

Residential Uses

Residence for on-site manager or watchman, as accessory to a storage facility, industrial facility, funeral homes, etc.

Commercial, Professional, Office Uses

Automobile parking lots

Automobile, boat, recreational vehicle sales and rental lots

Automobile gasoline stations, with no on-site repair

Automobile service stations, with or without external repair or storage of parts, inventory, machinery, or equipment

Banks and other financial institutions

Boarding houses

Car washes

Coin laundries

Dry cleaning retail

Food preparation establishments for off-premise delivery

Food stores, including general grocery, delicatessen, bakery, meat, poultry, fish vegetables, etc.

Funeral homes

General retail stores, with or without external storage of inventory, parts, machinery, or equipment
Newspaper publishing plants
Professional offices
Printers, commercial
Radio and television studios
Restaurants, delicatessens, bakeries, diners without drive-in facilities
Restaurants, delicatessens, bakeries, diners with drive-in facilities
Service business
Truck terminals
Transportation terminals, not including truck terminals
Hotel, Motel

Medical, Health, Personal Care Related Uses

Clinics
Hospitals, Psychiatric hospitals
Medical, dental, laboratories
Nursing homes
Offices of medical professionals, including doctors, dentists, chiropractors, physical therapists, psychologists, psychiatrists, etc.
Personal care homes; Residential care facilities
Mental health facilities
Senior citizen homes
Veterinarian offices, with or without kennels, without external runs

Educational Uses

Educational facilities of the State of South Carolina or the Cherokee County School System
Preschools, Kindergarten (Private)
Private schools, kindergarten through grade twelve
Private schools affiliated with a church or religious organization, kindergarten through grade twelve
Day care centers
Commercial trade or vocational schools

Recreational Uses

Neighborhood recreation centers, developed or undeveloped
Parks or recreational areas operated by the US Government, State of South Carolina, County of Cherokee, or the City of Gaffney. Facilities of any federal, state, county or city chartered organization or special district.

Community, Public, Semi-Public, Cultural Uses

Churches, synagogues, temples, or other places of worship, to include facility offices, but not to include affiliated schools or day care centers.

Hospitals, Psychiatric hospitals
Nursing homes
Offices of medical professionals, including doctors, dentists, chiropractors,
physical therapists, psychologists, psychiatrists, etc.
Personal care homes, Residential care facilities
Senior citizen homes
Veterinarian offices, without kennels

Educational Uses

Educational facilities of the State of South Carolina or the Cherokee County
School System
Preschools, Kindergarten (Private)
Private colleges or universities
Private schools, kindergarten through grade twelve
Private schools affiliated with a church or religious organization, kindergarten
through grade twelve
Day care centers
Commercial trade or vocational schools

Recreational Uses

Private commercial recreation facilities, fully enclosed and indoors
Neighborhood recreation centers, developed or undeveloped
Parks or recreational areas operated by the US Government, State of South
Carolina, County of Cherokee, or the City of Gaffney. Facilities of any
federal, state, county or city chartered organization or special district.

Community, Public, Semi-Public, Cultural Uses

Churches, synagogues, temples, or other places of worship, to include facility
offices, but not to include affiliated schools or day care centers.
Cemeteries, graveyards, mausoleums
Facilities and buildings of the federal government, government of the State
of South Carolina, County of Cherokee, or the City of Gaffney. Facilities of
any federal, state, county, or city chartered organization or special district.
Museums
Art galleries
Theater, exhibition halls
Facilities of civic, fraternal, or charitable organizations

Utility Sub-Stations, Switching Stations

Buildings owned or leased by the City of Gaffney, County of Cherokee, or
School District of Cherokee County for governmental purposes, without
external storage.

LI: Limited Industrial

Understanding the Unique Aspects of Hotel Property Tax Valuation

With the end of the real estate boom and with property values declining in many major markets, property tax assessments on many hotels continue to reflect the higher values of the last several years. If a hotel's property taxes are based on an undetected overassessment, the expense can represent a drain on cash flow and result in decreased market value. Hotel property owners should gauge the market values of their hotels and initiate appeals on their assessments if appropriate. Any savings achieved represent pure profit and result in an enhanced value. This article explores the widely accepted method for performing hotel valuations for tax purposes. How to determine whether a hotel is overassessed is explained as well.

In the current overbuilt real estate climate, property taxes continue to be one of the least understood expenses incurred by hotel owners. Under the *Uniform System of Accounts for Hotels*, the property tax expense is classified as "fixed."¹ This is actually something of a misnomer; although a hotel's property tax expense does not vary with

occupancy, rate, or total revenue, it can and often does vary from year to year and from property to property. That this expense is classified as a fixed expense underscores the perception that it cannot be controlled by ownership or management. This is not always so, however, and an opportunity frequently exists for educated management or

1. The Hotel Association of New York City, Inc., *Uniform System of Accounts for Hotels*, 8th rev. ed. (New York: The Hotel Association of New York City, Inc., 1986).

Karen E. Rubin is a senior vice president at Hospitality Valuation Services, Mineola, New York. Ms. Rubin graduated from Cornell University's School of Hotel Administration and is a member of the American Society of Real Estate Counselors and the American Hotel and Motel Association. She specializes in property tax work and has been involved in several precedent-setting tax cases. Daniel H. Lesser, MAI, is a senior vice president and the director of consulting and valuation services at Hospitality Valuation Services in Mineola, New York. A graduate of the Cornell University School of Hotel Administration, he is also a member of the American Society of Real Estate Counselors and the American Hotel and Motel Association. Mr. Lesser lectures frequently and has written numerous articles.

Portions of this article are excerpted from the following of the authors' previous writings: "Property Tax Valuation of Lodging Facilities," *Journal of Property Tax Management* (Fall 1991), reprinted in *Cornell Hotel and Restaurant Administration Quarterly* (February 1992); "Are Your Property Taxes Too High?" *The Hotel Valuation Journal* (November 1991). Permission to reprint has been granted by Panel Publishers, Inc., the Cornell H.R.A. Quarterly, and Hospitality Valuation Services.

ownership to exercise at least some degree of control over this expense by contesting the property's tax assessment. Often a hotel's largest fixed operating expense, property tax, if based on an undetected overassessment, can represent a drain on cash flow and result in decreased market value. Any savings that can be achieved in a hotel's annual property tax expense represent a dollar-for-dollar addition to the hotel's bottom line and a resulting enhancement of value. It is thus in the strongest interest of a hotel's ownership or management to pursue the issue of their property's assessment if the property is overassessed. This article explores why so many hotels and motels throughout the United States are overassessed and provides a step-by-step case study of how an appropriate assessment may be developed. It also provides several "acid tests" that can be used to determine whether a hotel or motel property is overassessed.

WHAT IS THE ASSESSED VALUE?

Real estate taxes are one of the primary revenue sources used by municipalities to obtain capital for public expenditures such as parks, highways, interest on bonds, and other government services. Based on the concept that the tax burden should be distributed in proportion to the value of all properties within a taxing jurisdiction, a system of assessments is established by a local assessor. Theoretically, the assessed value placed on each parcel bears a definite relationship to market value, so properties of equal market values will have similar assessments. Depending on the taxing policy of the municipality, property taxes can be based on the value of only the real property (i.e., real estate tax) or on the value of the personal property (i.e., per-

sonal property tax) plus the value of the real property.

While the exact way in which property taxes are levied varies, there are two commonalities among all tax jurisdictions. Property taxes are always an ad valorem tax; that is, the amount of taxes payable for any given property in any given period is always based on the property's value relative to other properties in the tax jurisdiction, and is always calculated by multiplying the tax rate times the property's assessed value (also called the assessment). In some tax jurisdictions, the assessment may be adjusted by an equalization ratio before the property tax rate is applied.

Another commonality among property taxes is that all property assessments feature some relationship to market value. Different tax jurisdictions may have different names for market value; it may be called "fair cash value," "fair market value," or "fair value." The underlying definitions, however, are almost always identical to or materially similar to the concept of market value as it is defined by the Appraisal Institute. Further, in accordance with the Appraisal Institute's requirement, an assessor's estimate of market value is always as of a specified date.

Annual reassessment is not a common practice in most tax jurisdictions. Many account for a property's change in value over time by calculating marketwide trends and using sophisticated computer models. Other jurisdictions provide for reassessment only upon a sale, or when a change in control of a property can be construed. Still others provide for jurisdiction-wide reassessment every two to ten years. It is important to note that even when reassessment is required annually, local assessors' offices are generally not staffed or funded enough to provide for annual reap-

praisal in depth. In most tax jurisdictions, these factors mean that in any given tax year a property may be overassessed. Further, the problem is worse for hotels than for other kinds of properties.

WHAT MAKES LODGING FACILITIES UNIQUE?

Lodging facilities are unique forms of real estate; in addition to land and improvements, they are labor-intensive, retail businesses that are extremely dependent on the management skills of a hotel operator. Unlike other forms of real estate such as office buildings, which are typically encumbered by long-term leases, lodging facilities require the leasing of guestrooms on what is often a daily basis. The ability to manage the short-term leasing of guestrooms also requires the expertise of an operator to maximize the average room rates. This task is further complicated by the different characteristics of the market segments to which typical lodging facilities cater.

One of the most common ways in which a hotel's ownership can address the issues raised by the absence of long-term leases is to affiliate the property with a nationally or regionally known hotel brand name. This can be accomplished either by franchising the property (a process by which a brand name is used under a license agreement) or by affiliation with a name-brand management company. The use of a recognized brand name generally increases a hotel's revenue-generating ability and thus adds to the hotel's bottom line, enhancing its value. Yet this portion of the property's value is clearly attributable to the brand name rather than to the property's real estate component, as will be discussed later in this article.

With no long-term leases to protect ownership, and with tenancy

turning over on a daily basis, hotels are often the first form of real estate to show the effects of local market trends on their income statements. This means that of all the different real estate types hotel values can fluctuate most rapidly. In temporarily overbuilt markets, hotels that suffer economically in the form of decreased occupancy or room rates experience a form of external obsolescence that many assessors would recognize if it were pointed out to them as such.

Another difference between hotels and other standard forms of real estate is that, unlike alternative property types, lodging facilities generally derive income from multiple revenue streams. In addition to the sale of guestrooms, a typical full-service lodging facility derives revenues from the sale of food and beverage items, the resale of telephone service, and the sale of retail items in gift shops. Other revenue sources may include commissions from vending machines located on the premises, fees for guest laundry and dry cleaning, charges for in-room movies and other similar amenities, and charges for parking (most frequently found in densely developed urban areas).

Larger and more complex types of hotels, such as large convention hotels or resorts, may derive income through an even wider array of revenue sources, including the rental of recreational facilities such as bicycles and beach chairs; the rental of meeting rooms, audio/visual equipment and related services; and even the rental of portions of the facility for retail or office space usage. Further, these types of hotels can be particularly likely to generate large amounts of revenues from the banquet and catering activities associated with the various types of group business that they accommodate.

Management expertise is required, not only to promote these

With no long-term leases to protect ownership, and with tenancy turning over on a daily basis, hotels are often the first form of real estate to show the effects of local market trends on their income statements.

other revenue streams, but also to minimize expenses associated with their production. Such activities as the sale of food and beverage items and the rental of audio/visual equipment can be the effective equivalent of conducting numerous, retail-oriented businesses on the premises of a particular hotel.

Another unique factor in the operation of hotels and motels is that significant amounts of personal property, including furniture and equipment, are required. Typically, the useful life of a hotel's personal property is shortened by heavy use, and replacement of the furniture and equipment is required at regular intervals to maintain the quality, image, and income potential of the overall facility.

The reason that so many hotels are overassessed has to do with the fact that many tax jurisdictions do not officially recognize the unique nature of hotels. The successful operation of this extraordinarily management-intensive form of real estate often requires the assistance of a brand name, frequently franchised in some form, to generate revenues. Further, an asset typically referred to as a hotel includes large amounts of personal property required to render the property functional as a hotel: beds, kitchen equipment, banquet chairs, and window coverings are among the personalty that a typical hotel houses and uses in the revenue-generating process.

Obviously, the valuation of lodging facilities is also unique and typically requires a thorough understanding of all business aspects of hotel property operation. When estimating a market value for tax assessment purposes, an appraiser

is required to isolate only the value of the real property components—namely the land and improvements. An understanding of the economic relationship of all of the components to the entire property is essential to perform this task.

THE MARKET VALUE APPRAISAL

Because a hotel's assessment always bears at least a theoretical relationship to the effective equivalent of its market value, establishing an estimate of market value is critical. In *The Appraisal of Real Estate*, ninth edition, market value is defined as:

The most probable price, as of a specified date, in cash, or in terms equivalent to cash, or in other precisely revealed terms, for which the specified property rights should sell after reasonable exposure in a competitive market under all conditions requisite to a fair sale, with the buyer and seller each acting prudently, knowledgeably and for self-interest, and assuming that neither is under undue duress.²

Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

1. Buyer and seller are motivated by self-interest;
2. Buyer and seller are well informed or well advised, and each is acting prudently;
3. The property is exposed for a reasonable time in the open market;
4. Payment is made in cash, its equivalent, or in specified financing terms;
5. Specified financing, if any, may be the financing actually

2. American Inst. of Real Estate Appraisers, *The Appraisal of Real Estate*, 9th ed. (Chicago: American Inst. of Real Estate Appraisers, 1987), 19.

in place or on terms generally available for the property type in its locale on the effective appraisal date;

6. The effect, if any, on the amount of market value of atypical financing, services, or fees shall be revealed clearly and precisely in the appraisal report.³

Two other often-quoted definitions of market value include:

The highest price in terms of money which a property will bring if exposed for sale in the open market, allowing a reasonable time to find a purchaser who buys with knowledge of all the uses to which it is adapted and for which it is capable of being used.⁴

The price at which a willing seller would sell and a willing buyer would buy, neither being under abnormal pressure.⁵

In appraising real estate for market value, professional appraisers incorporate three approaches: the cost, sales comparison, and income capitalization approaches. Although all three valuation procedures are generally given consideration, the inherent strengths of each approach as well as the nature of the subject property must be evaluated to determine which will provide supportable estimates of market value.

THE COST APPROACH

In the cost approach, market value is estimated by computing the current cost of replacing a property and subtracting any accrued depreciation resulting from one or more of

the following factors: physical deterioration, functional obsolescence, and external (or economic) obsolescence. The value of the land as if vacant and available is then added to the depreciated value of the improvements to produce a total value estimate.

The cost approach may provide a reliable estimate of value for newly constructed properties; however, as buildings and other forms of improvements age and begin to deteriorate the resultant loss in value becomes increasingly difficult to quantify accurately. Moreover, because furniture and equipment depreciate faster than a hotel's physical plant, separate estimates of physical depreciation, functional obsolescence, and economic obsolescence would be required for the personalty and realty components. This further complicates the cost approach when it is applied to a valuation for property tax purposes, which requires that only a hotel's real estate component be considered.

Knowledgeable buyers of lodging facilities generally base their purchase decisions on economic factors such as forecasted net income and return on investment. Because the cost approach does not reflect any of these income-related considerations but does require a number of highly subjective and unsubstantiable depreciation estimates, this approach is usually given minimal weight in the hotel valuation process. It is even less applicable than the norm when only a hotel's real estate component is being valued.

3. American Inst. of Real Estate Appraisers, *The Appraisal of Real Estate*, 8th ed. (Chicago: American Inst. of Real Estate Appraisers, 1983), 33.

4. American Inst. of Real Estate Appraisers, *Appraisal Terminology Handbook*, 5th ed. (Chicago: American Inst. of Real Estate Appraisers, 1967), 131.

5. Ibid.

For estimation of the market value of a hotel's real property components for tax assessment purposes, the sales comparison approach is particularly inappropriate.

THE SALES COMPARISON APPROACH

The sales comparison approach estimates the value of a property by comparing it to similar properties recently sold on the open market. To obtain a supportable estimate of value, the sale prices of comparable properties must be adjusted to reflect any dissimilarities between the comparables and the subject property.

The sales comparison approach may provide a useful value estimate for simple forms of real estate, such as vacant land and single-family homes, when the properties are homogeneous and the adjustments are few and relatively simple to compute. In the case of more complex investments such as shopping centers, office buildings, restaurants, and lodging facilities, however, when the adjustments are numerous and more difficult to quantify, the sales comparison approach loses much of its reliability.

Unlike office buildings and retail shopping malls, most hotels are essentially dissimilar from one another in the type of hotel operation, the quality and condition of physical improvements, the locational attributes, and the characteristics of the local hotel market's supply and demand. Numerous adjustments thus are required to render a sale comparable to a subject property. Such adjustments, however, are typically unsubstantiable from the market and difficult to estimate.

Several other circumstances can lessen the comparability of hotel sale data. For example, the sale of a hotel property may include an assumption by the purchaser of existing financing at nonmarket terms; a note may be taken back by a seller under duress; cash flow, equity, or debt service guarantees may exist; a partial interest in a property rather than an entire fee simple interest

may be transferred; a leasehold or leased fee interest in a property subject to a nonmarket lease may be sold; and a property may be transferred as part of a package of several other properties in which the sale price of the particular comparable property may be merely an allocation of the whole.

Obtaining specific information on which to base adjustments for any of the previously cited differences can be extremely difficult. Even if information is available, attempts to derive market-supportable adjustments are, in general, merely speculative.

Hotel investors typically do not employ the sales comparison approach in reaching their final purchase decisions. Various factors, such as the lack of timely comparable hotel sale data, the numerous unsupportable adjustments that are necessary, and the general inability to determine the true financial terms and human motivations of comparable transactions often make the results of the sales comparison approach questionable. Although the sales comparison approach may provide a range of values to bracket and support the final estimate of value, any reliance beyond the establishment of broad parameters generally is not normally justified by the quality of data.

The market-derived capitalization rates sometimes used by appraisers are susceptible to the same shortcomings inherent in the sales comparison approach. To substantially reduce the reliability of the income capitalization approach by employing capitalization rates obtained from unsupported market data not only weakens the final estimate of value, it also fails to consider the typical investment analysis procedures employed by hotel purchasers. Because appraisers are obligated to mirror the actions of the marketplace, an appraiser

should generally give the sales comparison approach minimal weight in the hotel appraisal process beyond bracketing the final estimate of value.

For estimation of the market value of a hotel's real property components for tax assessment purposes, the sales comparison approach is particularly inappropriate. Typical hotel investors purchase hotels in anticipation of income from the real property, personal property, and business or going-concern components. Most sales of hotels include the transfer of both the realty and nonrealty components, and the per-room price of even the most comparable sale is difficult to use as an indication of value for another hotel's isolated real property component.

For example, hotels routinely sell with personal property in place; thus the sale price for a typical hotel includes such relatively short-lived assets as furniture, fixtures, and equipment (FF&E), and an allocation must be made to the comparable sale prices in order to adjust for the personalty's inclusion. However, a good source of market data appropriate for use as a basis from which to derive such an adjustment does not exist. The same is true of a business housed within a typical hotel. Hotels routinely transfer as going concerns, with buyers buying into the hotel business that is operated on the premises and anticipating income from the continued operation of the hotel business. Yet this element of a hotel's value is, like the personal property, explicitly excluded from consideration when only the hotel's real property elements are considered. Another unsupportable adjustment to the comparable sale price thus would be required to account for the portion of the price that was paid for the going concern. As is the case for a hotel's personal property elements, vir-

tually no market data exist that could be used as a basis from which to derive an appropriate adjustment.

THE INCOME CAPITALIZATION APPROACH

The income capitalization approach takes a property's forecasted net income before debt service and allocates these future benefits to the mortgage and equity components based on market rates of return and loan-to-value ratios. Through a discounted cash flow (DCF) analysis or other income capitalization procedure, the value of each component is calculated. The total of the mortgage component and the equity component equals the value of the property. This approach is often selected as the preferred valuation method for income-producing properties because it most closely reflects the investment thinking of knowledgeable buyers.

The authors' worldwide experience with a wide variety of hospitality buyers and sellers indicates that the procedures used in estimating market value by the income capitalization approach are comparable to those employed by the hotel and motel investors who actually constitute the marketplace. The income capitalization approach therefore produces the most supportable value estimate and is generally given the greatest weight in the hotel valuation process.

Further, the income capitalization approach is even more appropriate when a hotel's real estate component must be considered independent of its nonrealty elements. A stabilized statement of income and expenses allows for market-supported deductions for income attributed to personal property as well as income attributed to the going concern.

A stabilized income and expense

statement is intended to reflect the anticipated operating results of a property over its remaining economic life, considering any or all applicable stages of build-up, plateau, and decline in the life cycle of a hotel. A typical hostelry will experience a slowly rising level of occupancy in the first two to four years of operation, a stabilized level of income sometime between the second and fifth year of operation, a higher than stabilized income for several years, and a gradual decline in income for the remainder of its economic life as a result of physical depreciation or functional and external obsolescence. Thus, income and expense estimates from the stabilized year forward exclude from consideration any abnormal relationship between supply and demand, and also exclude any transitory or nonrecurring conditions that may result in unusual revenues or expenses.

A stabilized statement of income and expense should be based on the assumption that the property is competently marketed and managed. Because the quality of management plays an integral role in the profit potential of a lodging facility, an appraiser must equalize the effects of varying managerial expertise. An appraiser can use an existing hotel's historical statement of income and expense for either the year prior to or subsequent to the date of value, as long as the historic net income can be considered to represent a competently operated, stabilized operating level.

For the sake of simplicity, a one-year forecast and capitalization process is used to estimate an income capitalization value rather than a multiyear DCF analysis. Theoretically, if a property has already achieved a stabilized position at the beginning of a forecast, the direct capitalization and DCF methods will result in equal val-

ues. If, however, a hotel property has not yet reached a stabilized level, capitalizing one stabilized year of net income would result in a higher value than a DCF analysis, because no consideration would be given to less than optimal cash flows, which a property would typically experience prior to stabilization. Both direct capitalization of one stabilized year and multiyear DCF analyses are used by investors who purchase and sell hotel properties.

VALUATION OF A SUBJECT HOTEL FOR ASSESSMENT PURPOSES

The subject hotel is a 300-room, downtown facility operated by a first-tier management company that provides, in addition to operational expertise, a brand name and a supporting reservation system. The property is four years old, well maintained, and has reached its stabilized level of operation. In relation to the number of guest-rooms, the property contains an adequate amount of food and beverage facilities and meeting space. Recreational facilities include an indoor/outdoor swimming pool, a sauna, and jacuzzi, and an exercise room, all of which are free to hotel guests. The hotel derives some income from these facilities through the sale of outside memberships. The property also contains a gift shop that is leased to an outside operator.

In the subject property's tax jurisdiction, real estate taxes are levied and payable on a calendar year basis. January 1 is the effective date of value for any given tax year. The appropriate date of value to use when appealing the property's 1990 taxes thus is January 1, 1990. The statement of stabilized net income before property taxes shown in Table 1 represents income attributable to the land, improvements,

TABLE 1 300-Room Subject Property
Stabilized Statement of Income and Expense

Year:	Stabilized (1990)	
Total rooms:	300	
Occupied rooms:	82,125	
Occupancy:	75.0%	
Average rate:	\$90.00	
REVENUES		
	Total \$	% Gross
Rooms	\$ 7,391,000	55.8%
Food	\$ 4,065,000	30.7%
Beverage	\$ 1,423,000	10.7%
Telephone	\$ 259,000	2.0%
Other income (net)	\$ 111,000	0.8%
Total revenue	\$13,249,000	100.0%
DEPARTMENTAL EXPENSES*		
Rooms	\$ 1,848,000	25.0%
Food & beverage	\$ 4,500,000	82.0%
Telephone	\$ 233,000	90.0%
Total departmental expenses	\$ 6,581,000	49.7%
Departmental income	\$ 6,668,000	50.3%
UNDISTRIBUTED OPERATING EXPENSES		
Administrative & general	\$ 1,192,000	9.0%
Marketing	\$ 729,000	5.5%
Property operations & maintenance	\$ 596,000	4.5%
Energy	\$ 464,000	3.5%
Total undistributed operating expenses	\$ 2,981,000	22.5%
Income before fixed charges	\$ 3,687,000	27.8%
FIXED CHARGES		
Insurance	\$ 60,000	0.5%
Total fixed charges	\$ 60,000	0.5%
Net income before management fee, reserve for replacement, and property taxes	\$ 3,627,000	27.3%

*Ratios for departmental expenses are expressed as percentages of departmental revenues.

business or going concern, and personal property.

BUSINESS VALUE AND PERSONAL PROPERTY ADJUSTMENTS

As previously noted, in the real estate appraisal industry, the market value of a hotel is considered to consist of four components:

1. Value of the land
2. Value of the improvements
3. Value of the business or going concern and franchise affiliation
4. Value of the FF&E (i.e., personal property)

The total of these four components equates to the market value of the hotel as a whole. For property tax purposes, for which the value of the real estate alone must be considered, a deduction has to be made for the value of the business (i.e., going concern) and the value of the personal property.

VALUE OF THE BUSINESS

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. Further, in addition to the sale of guestrooms lodging facilities typically derive income from several sources including the sale of food, beverages, and telephone service, which require additional business and management expertise.

The business value of a hotel is also composed of the benefits that accrue from an affiliation with a brand-name hotel company through either a franchise agreement or a management contract. Typically, chain-affiliated lodging facilities outperform independent properties, and the added value created by increased profits is purely attributable to the affiliation rather than to any real property interests.

Hotel companies that provide management services can generally be classified into two categories: first tier or second tier. First-tier companies such as Holiday Inn, Hilton, Sheraton, 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 Larken and Interstate Hotel Corporation 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 Hyatt and Westin generally offer their brand names, corporate identities, and reservation systems solely in conjunction with their management expertise. Hotel companies

such as Choice Hotels (which include the Clarion, Quality, and Comfort Inn affiliations) and Hospitality Franchise Systems (which include the Howard Johnson and Ramada 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 fee.

The process of isolating the value of a hotel's business is based on the premise that by employing a professional management agent to handle the day-to-day operation of the property, an owner maintains only a passive interest, while the income attributed to the business has been taken by the managing agent in the form of a management fee. Therefore, deduction of a management fee from the stabilized net income removes a portion of the business component from the stabilized income stream. Additional business value is derived from the benefits of identification with a widely recognized brand name.

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). 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.

Based on our experience in hiring management agents and reviewing management contracts, typical base management fees average 2% to 5% of gross revenues. Typical incentive management fees range more widely, however, from 10% to 25% of different levels of net income. 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.

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 franchisor'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% to 6.5%. Advertising and marketing fees, which are typically based on a percentage of rooms revenue, may range from 1% to 3%. Reservation fees can be charged one of three ways: a per-

centage of rooms revenue typically ranging from 1% to 2.5%; 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% to 9% and can go as high as 10% 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, it is generally appropriate to use 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, the appropriate fees should be considered under a franchise agreement 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 are reflected in the stabilized year forecast of income and expenses should be considered.

Table 2 illustrates the income attributed to the business or going concern for the subject property under two scenarios: 1) assuming a first-tier hotel management company, and 2) assuming a second-

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% to 9% and can go as high as 10% of rooms revenue.

TABLE 2 Subject Hotel—Derivation of Income Attributable to the Business or Going Concern

Scenario 1*				
Stabilized Gross Revenue		First-Tier Hotel Management Company Base Management Fee		Income Attributable to the Business or Going Concern
\$13,249,000	x	3.0%	=	\$397,470
Income Before Fixed Charges and After Base Management Fee**		Incentive Management Fee		
\$3,290,000	x	10.0%	=	\$329,000
			Total (rounded)	\$726,470 \$726,000
Scenario 2				
Stabilized Gross Revenue		Second-Tier Hotel Management Company Management Fee		Income Attributable to the Business or Going Concern
\$13,249,000	x	3.0%	=	\$397,470
Stabilized Rooms Revenue		Franchise Fee		
\$7,391,000	x	4.5%	=	\$332,595
			Total (rounded)	\$730,065 \$730,000

*The calculations under both scenarios fall within a narrow range. For illustrative purposes the case study will continue using scenario one.

**Equals $3,687,000 - 397,470 = \$3,289,530$, rounded to \$3,290,000.

tier hotel company with a brand name franchise affiliation. In scenario 1, a first-tier management fee consisting of 3% of gross revenues (the base fee) plus 10% of net income before fixed charges but after the base management fee has been deducted (the incentive management fee) is deemed appropriate. It is recommended, however, that the terms of the management contract that actually encumber a specific hotel be reflected to as great an extent as possible in its valuation for property tax purposes, as long as the existing management contract is either at market terms or is freely transferable to any new ownership entity, and as long as it is reasonable to assume that a typical investor in the property would accede to the existing management contract terms. Depending on the terms of the management contract actually in place at a particular hotel, a deduction for both base and

incentive management fees or franchise fees, possibly both, may or may not be appropriate.

In the authors' experience with hotel property tax appeals, assessors appear to have a certain amount of initial confusion and resistance to the notion that a hotel includes certain elements that represent a going concern, as opposed to being simply real estate. One of the best analogies is that of a retail mall. In valuing the fee simple ownership (i.e., the simplest, most absolute form of ownership) in a retail mall through the income capitalization approach, appraisers and assessors know that the revenue streams to the mall's ownership take the form of rental payments made by the tenants in the mall. The rent payable by any particular tenant is typically not equal to the tenant's income, but is rather only a part of the tenant's income. Assume, for example, that the operator of a ci-

gar store leases retail space from the mall's ownership at an annual rental of 10% of gross revenues. Assume further that this particular tenant can drop 20% to the bottom line before rent. In this particular case, the tenant's rental payment would equal half of the bottom line: the remaining half (10%) goes directly into his or her pocket as business income. For the purpose of calculating rental revenue to the owners of the mall, it makes sense that only the portion of the tenant's bottom line that is payable in rent is considered.

What some assessors fail to recognize is that for hotels, the effective equivalent of a tenant is a management company. Years ago, in fact, management contracts like the ones that are commonly found in the current marketplace did not exist. Rather, total property leases were used. A common rental formula called for 25% of rooms revenue, 10% of beverage revenue, and 5% of food revenue. If total property leases were still the norm, identifying the income stream to the hotel's real estate component would not be difficult; it would be calculated as the rental payments required to be paid by the tenant/operator to property ownership. The common use of management contracts, however, has resulted in confusion as to how much of a hotel's income stream represents the tenant's income (i.e., income attributable to the business or going concern) and how much represents the income to property ownership (i.e., the income attributable to the real estate). By failing to deduct all amounts payable to the management company (and franchisor) from the hotel's income stream, assessors routinely value hotel properties based on income attributable to the realty and nonrealty elements. Appropriate deductions from a typical hotel's income stream to account for income attributable

to the going concern include base and incentive management fees, franchise fees, reservation fees, and advertising royalties. If any of these items are permitted to remain in the income stream capitalized into an estimate of the property's market value, then that value includes nontaxable elements. If this value is then used as the basis for the property's assessment, the property is probably overassessed.

VALUE OF THE PERSONAL PROPERTY

Both a return on and of a hotel's personal property must be considered to deduct net income attributable to the furniture and equipment. These amounts can be identified the same way in both scenarios.

The return of personal property is based on the fact that furniture and equipment are essential to the operation of a lodging facility and their quality often influences the class of a property. Included in this category are all non-real estate items that are typically capitalized rather than expensed. The FF&E are exposed to heavy use and must be replaced at regular intervals. The useful lives of these items are determined by their quality, durability, and the amount of guest traffic and use. Periodic replacement of FF&E is essential to maintain the quality, image, and income potential of a lodging facility. Because capitalized expenditures are not included in the operating statement but nevertheless affect an owner's cash flow, an appraisal should reflect these expenses in the form of an appropriate reserve for replacement.

Most hotel management agents account for the frequent replacement of FF&E by establishing a reserve for replacement fund, typically funded from a hotel's cash flow. In theory, a sufficient amount

of money is available in the fund to replace FF&E at the end of its useful life. Industry experience indicates that a reserve for replacement of 3% to 5% of total revenue generally is sufficient to provide for the timely replacement of FF&E. The deduction of a reserve for replacement from the stabilized statement of income and expense can therefore be used to account for the return of personal property.

The following calculation illustrates the return of personal property for the subject hotel:

Subject Hotel—Derivation of Return of Personal Property

Stabilized Gross Revenue	Reserve for Replacement Percentage	Stabilized Return of Personal Property
\$13,249,000 ×	3.0%	= \$397,470

The return on personal property is based on the theory that a certain cost of capital is associated with the ownership of personal property. If chattel mortgages on hotel FF&E were available in the marketplace, they would provide an indication of the economic return required on personal property. Because chattel mortgages are not common, and a lodging facility's FF&E is typically financed as part of the entire property, interest rates on hotel mortgages establish a minimum required rate of return. Using the overall rate (which will be derived later in this article) establishes a maximum rate of return.

As the tax rate for personal property is the same as for the real estate components of the subject property, and as the personal property taxes have not been deducted from the stabilized statement of income and expenses, the applicable tax rate is added or "loaded" to the

required rate of return on personal property to derive a total personal property return rate.

Subject Hotel—Derivation of Return on Personal Property

Overall capitalization rate	11.0%
Tax rate per \$100 of assessed valuation	1.0%
Rate of return on personal property	12.0%
Assessed value of the subject hotel's personal property	\$1,800,000
Return on personal property	\$ 216,000

In this example, the assessed value of the personal property is the basis from which the return on personal property is derived. Because the personalty assessment is routinely performed by parties related to the real property assessor, the use of this assessment is typically acceptable to both sides in an assessment appeal.⁶ Personal property is not assessed everywhere; in jurisdictions that do not tax or assess personal property, the depreciated book value of the personal property can be used as a basis from which to derive the return on personal property calculation. Because of the rapidity with which these short-lived items are depreciated, the depreciated book value can be considered a "floor" on the value of the personal property; its use in the return on personalty calculation thus results in the most conservative (i.e., lowest) estimate possible for a return on personal property, giving any benefit of the doubt to the value of the hotel's real estate component.

The total deduction of income attributed to the personal property is the sum of the return on and the return of personal property.

6. If the personal property assessment is equalized, the full value indicated by the assessment divided by the equalization ratio should be used.

**Subject Hotel—Derivation of Income
Attributable to Personal Property**

Return of personal property	\$394,470
Return on personal property	\$216,000
Income attributable to the personal property	\$610,470
Rounded	\$610,000

**INCOME ATTRIBUTED TO
THE REAL ESTATE**

To calculate the income attributed to the real estate, the income attributed to the business and personal property are deducted from the stabilized net income before real estate taxes. It should be noted that because the authors' estimates of income attributable to the going concern were so close to each other under the two scenarios, the final conclusions will be illustrated for the first scenario only because the differences are negligible.

**Subject Hotel—Derivation of Income
Attributable to Real Property**

Stabilized net income before management fee, property taxes, and reserve for replacement	\$3,627,000
Less: Income attributable to business or going concern	\$ 726,000
personal property	\$ 610,000
Stabilized net income attributable to the real estate before real estate taxes	\$2,291,000

INCOME CAPITALIZATION

The income capitalization approach is based on the principle that the value of a property is indicated by the net return to the property, or what is also known as the present worth of future benefits. The future benefit of income-producing properties such as hotels and motels is net income before debt ser-

vice and depreciation. For property tax appraisals in which one stabilized year is considered, it is appropriate to derive an overall capitalization rate. Typically, lodging facilities are appraised by use of a mortgage equity analysis, which reflects that investors typically purchase real estate with a relatively small amount of equity cash (20% to 40%) and a larger amount of mortgage financing (60% to 80%). This technique gives weight to the amount and terms of available mortgage financing and what rates of return are required to attract sufficient equity capital.

MORTGAGE COMPONENT

Data for the mortgage component may be developed from statistics of actual hotel mortgages made by long-term permanent lenders. The American Council of Life Insurance, which represents 20 large life insurance companies, publishes quarterly information on the hotel mortgages issued by their member companies. The following table summarizes the average mortgage interest rates of the hotel loans made by these lenders for two years before and one year after the January 1, 1990, date of value.

**American Council of Life Insurance
Typical Hotel and Motel Mortgages**

Year	Fixed Term/ Fixed Rate Average Interest Rate	Total Average Interest Rate
1988	n.a.	10.17%
1989	9.93%	9.81%
1990	10.53%	10.28%

Based on the preceding analysis of the lodging industry mortgage market, and adjusting for specific factors individual to this property's location and local hostelry market conditions, a 10% interest, 30-year mortgage with 12 annual payments and a resulting 0.105309 constant

is considered appropriate for the subject property as of January 1, 1990. As of this date, the authors determined that a mortgage lender would lend up to 65% of the hotel's market value.

EQUITY COMPONENT

The remaining capital required for a hotel investment generally comes from the equity investor. The rate of return that an equity investor expects based on a one-stabilized-year analysis is commonly known as the equity dividend, or cash-on-cash return. As of the date of value for the subject property, equity investors in lodging facilities of the subject property's type were generally seeking cash-on-cash returns of between 10% and 15%. When an equity dividend rate is used, the cash benefits from operation of the property that are derived by the equity position are explicitly considered. Implicitly considered in the cash-on-cash return is the anticipated receipt of all future benefits that accrue to the equity position. These include tax shelter, increasing annual dividends resulting from inflation, and equity buildup caused by property appreciation and amortization of debt over a period of time.

The subject's age and market position as of the date of value cause it to represent an average eq-

uity risk, and a 12% cash-on-cash return is considered appropriate.

The capitalization rate is computed as the weighted average of the returns required by the mortgage and equity funds.

This capitalization rate is used for valuing stabilized net income after real estate taxes. The overall capitalization rate is loaded with the 1990 property tax rate (per \$100 of value), rendering an adjusted overall capitalization rate applicable for stabilized net income before real estate taxes.

Subject Hotel—Derivation of Adjusted Overall Capitalization Rate	
Overall capitalization rate	.110
Real estate tax rate (per \$100)	.010
Loaded overall capitalization rate	12.0%

To apply the capitalization rate to the stabilized net income attributed to the real estate, the stabilized net income before real estate taxes is divided by the adjusted before-tax overall capitalization rate as illustrated below. This calculation is accomplished identically in both scenario 1 (i.e., name-brand management company) and scenario 2 (i.e., second-tier management company with national franchise).

The market value of the real property can be proven by deducting the projected real estate taxes

Subject Hotel (scenario 1)—Derivation of Property Tax Valuation			
Stabilized Net Income	=	\$2,291,000	=
Adjusted overall capitalization rate		.120	
			\$19,092,000 (rounded)

Subject Hotel—Derivation of Overall Capitalization Rate				
	Loan-to-Value		Return Requirement	
Mortgage	0.65	×	.105309	=
Equity	0.35	×	.120000	=
			Overall capitalization rate	.11045
			Approximately	.11000

from the stabilized net income before taxes, and capitalizing the resultant amount by the unadjusted after-tax capitalization rate as illustrated.

Subject Hotel (scenario 1)—Proof of Value	
Indicated market value @ 1/1/90	\$19,092,000*
1990 tax rate	.010
1990 real estate taxes	\$ 190,920
Stabilized (1990) net income attributable to real estate before real estate taxes	\$ 2,291,000
Less: 1990 real estate taxes	\$ 190,920
Stabilized net income after real estate taxes	\$ 2,100,080
Overall capitalization rate	.11
Indicated market value @ 1/1/90	\$19,092,000*
*rounded	

Once a hotel's market value is known, the appropriate assessment for the property is generally easy to calculate. When the assessment is a specified ratio of market value (assessment ratio), this ratio is simply applied to (multiplied by) the indicated market value. In some instances, the equalization ratio must then be applied to the assessment, and this can be accomplished by another, simple multiplication calculation. If the assessment is theoretically at full market value, no subsequent calculation need be performed.

HOW TO DETERMINE WHETHER A HOTEL IS OVERASSESSED

There are any number of factors individual to each tax jurisdiction that can make this determination

complicated. Ultimately, the best way to determine whether a property is overassessed is to perform the analysis previously outlined. There are two relatively simple tests that anyone can perform with a little legwork, however, that should result in at least a preliminary indication of whether a hotel property is overassessed and whether a viable case exists to contest an assessment.

The first test is to compare a hotel's assessment to that of other, similar properties in the tax jurisdiction.⁷ To accomplish this, it is necessary to actually go to the assessor's office (where the tax rolls are kept) and look up the assessments of every other hotel in the subject tax jurisdiction. Assessments are generally broken down into at least two categories: land and building (improvements). Because any two hotels in the jurisdiction may be on different-sized sites and the value of the land underlying any two hotels may be widely disparate depending on a site's size and location, it is generally unfruitful to compare assessed values for the land. By determining the assessment applicable to each comparable hotel's improvements, however, and by expressing this assessment on a per-room value, a viable unit of comparison can be derived.

If differences between a subject's per-room improvements assessment and those of other hotels in the jurisdiction are not evident because of perceivable differences in the properties, the subject's assessment may be unfair.⁸ Suppose, for example, that the subject hotel is a 20-year-old, nationally franchised, full-service property in a tax jurisdiction in which most of the other existing hotels have been

7. This test may not be appropriate for properties located in California because of the nature of that state's Proposition 13.

8. Ibid.

A second test of the reasonableness of a hotel assessment involves deriving an approximate capitalization rate suggested by the assessor's estimate of market value.

built in the past five years. Suppose further that the new properties also have nationally recognized brand names and also are full-service properties. If the market value on which the subject improvements assessment is based (i.e., the assessed value of the improvements divided by any applicable assessment ratio or equalization ratio) equates to \$50,000 per room, and the market values on which the improvements assessments of the newer properties are based range from \$10,000 to \$25,000 per room, the subject assessment may be inequitable. Unless there is an explanation for the disparity, the makings of a strong property tax case may be evident. In performing this test it is important to compare the assessor's market values of the properties (the values on which the assessment is based) and not just the assessments.

A second test of the reasonableness of a hotel assessment involves deriving an approximate capitalization rate suggested by the assessor's estimate of market value. To accomplish this test, it must be possible to estimate the appropriate level of net income for the appropriate year. In many cases, the year immediately following or the year prior to the assessor's date of value can be used as long as the net income can be considered to represent a stabilized level of operation under competent management. If a subject property is old enough to have reached a mature, stabilized position in the marketplace, actual income statements can be used. If the subject property has not reached its stabilized level of operation or if the property is being mismanaged (i.e., if expense ratios are materially higher than industry norms for no reason inherent to the property itself), an estimated income stream can be developed for the indicated year as

if the property were stabilized or competently managed.

The income stream should include as expense deductions economic base management fees. If appropriate, incentive management fees, a reserve for replacement, and all other operating costs, including franchise fees, reservation fees, franchise royalties, and advertising fees should also be included. As was illustrated by the previous example, expenses that would not be deducted include noncash expenses such as depreciation and amortization, expenses particular to the specific ownership entity such as partnership fees or interest expenses, and nonoperating expenses. In addition, a deduction for the return on personal property, the calculation of which has been illustrated, can be included.

Once a stabilized net income is approximated in this manner, it should be divided by the market value on which the subject property assessment is based. The resulting ratio can be thought of as an approximated capitalization rate: the relationship between net income and the assessor's opinion of market value. If this ratio is greater than 15%, the subject property may be underassessed and the property owner may not want to pursue the potential case. If this ratio is less than 8%, however, the subject assessment may be high relative to the hotel's income-producing capacity, and the basis for a strong property tax case may exist.

As a warning, it is inadvisable to use the ratio of the property tax expense to the hotel's total revenues to determine whether the property taxes are too high. For this one item (i.e., the percentage of property taxes to total gross), industry averages are meaningless. In some tax jurisdictions, property taxes may as the norm fall between

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12% and 15% of total gross; in other jurisdictions, 2% to 4% may be the norm. Because of the many differences between one tax jurisdiction and another, property taxes simply cannot be compared, on a nationwide basis, as a percentage of gross revenue.

CONCLUSION

Because the nature of a typical hotel, as an entity, is unique among the various traditional forms of real estate, a hotel's valuation for property tax purposes represents a challenge. Of the four components that create a hotel's revenue-generating capacity, both the personal property and the going concern must be specifically excluded from consideration.

In any valuation for real estate tax assessment purposes, an appraiser must consider the three approaches to value: cost, sales comparison, and income capitalization. Because a lodging facility is an income-producing entity typically bought and sold on the basis of its

ability to produce operating profits to an investor, however, the most appropriate procedure for estimating market value is the income capitalization approach. This approach involves the capitalization of a stabilized net income stream of a property based on an assumed mortgage interest amortization and equity return. To accurately estimate a real property value for assessment purposes, appropriate deductions are made for income attributed to the business or going concern and income attributed to the personal property. Because virtually all hotel owners use an income capitalization procedure in formulating investment decisions, this approach closely mirrors the actions of those in the marketplace and is most appropriate for estimating the market value of a lodging facility for property tax purposes. This approach is also the only one of the three approaches to value that inherently contains a technology for separating the incomes attributable to a hotel's non-realty components.



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Sleep Inn Gaffney Monthly STAR Report

For the Month of January 2009

STR #: 33099

Date Created: February 20, 2009

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STAR Summary	2
Competitive Set Report	3
Response Report	4
Day of Week & Weekday/Weekend	5
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Tab 2 - Monthly Performance at a Glance - My Property vs. Competitive Set

Sleep Inn Gaffney 334 Winslow Dr Gaffney, SC 29341-2623 Phone: (864) 437-5337

STR # 38099 ChainID: SC189

MgtCo: None Owner: None

For the Month of: January 2009

Date Created: February 20, 2009

Monthly Competitive Set Data Includes Subject Property

January 2009									
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	Occupancy (%)			ADR			RevPAR		
	My Prop	Comp Set	Index	My Prop	Comp Set	Index	My Prop	Comp Set	Index
Current Month	26.1	38.4	68.0	69.44	67.35	103.1	18.14	25.87	70.1
Year To Date	26.1	38.4	68.0	69.44	67.35	103.1	18.14	25.87	70.1
Running 3 Month	27.4	40.0	68.6	72.02	68.95	104.4	19.77	27.58	71.7
Running 12 Month	35.5	48.3	73.5	73.67	70.07	105.1	26.16	33.86	77.3

January 2009 vs 2008 Percent Change (%)									
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	Occupancy			ADR			RevPAR		
	My Prop	Comp Set	Index	My Prop	Comp Set	Index	My Prop	Comp Set	Index
Current Month	-41.7	-3.6	-39.5	-9.7	-0.6	-9.2	-47.4	-4.2	-45.1
Year To Date	-41.7	-3.6	-39.5	-9.7	-0.6	-9.2	-47.4	-4.2	-45.1
Running 3 Month	-36.1	-5.9	-32.1	-4.9	2.4	-7.1	-39.2	-3.6	-36.9
Running 12 Month	-30.8	-4.4	-27.6	-0.2	4.3	-4.3	-30.9	-0.3	-30.7

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Tab 3 - STAR Summary - My Property vs. Comp Set and Industry Segments

Sleep Inn Gaffney 234 Windsor Dr Gaffney, SC 29341-2623 Phone: (854) 487-5337

STR # 30059 ChainID: SC109

MgtCo: None Owner: None

For the Month of January 2009

Date Created: February 20, 2009

Monthly Competitive Set Data Includes Subject Property

Competitive Set Data								
	Current Month	% Chg	Year to Date	% Chg	Running 3 Month	% Chg	Running 12 Month	% Chg
Sleep Inn Gaffney	26.1	-41.7	26.1	-41.7	27.4	-36.1	35.5	-30.3
Market: Greenville-Spartanburg, SC	44.2	-14.9	44.2	-14.9	44.6	-13.1	55.8	-6.2
Market Class: Midscale w/o F&B Class	44.9	-19.1	44.9	-19.1	47.1	-14.4	59.8	-6.2
Tract: Spartanburg	43.0	-6.7	43.0	-6.7	42.8	-12.9	52.7	-6.1
Tract Scale: Midscale Chains	45.0	-4.1	45.0	-4.1	45.4	-7.0	54.6	-3.6
Competitive Set: Competitors	36.4	-3.6	36.4	-3.6	40.0	-5.9	48.3	-4.4

Competitive Set Data								
	Current Month	% Chg	Year to Date	% Chg	Running 3 Month	% Chg	Running 12 Month	% Chg
Sleep Inn Gaffney	59.44	-9.7	59.44	-9.7	72.02	-4.9	73.87	-0.2
Market: Greenville-Spartanburg, SC	59.08	-2.6	59.03	-2.6	68.63	-1.3	71.46	2.7
Market Class: Midscale w/o F&B Class	51.69	-1.4	51.69	-1.4	61.35	-0.1	63.55	3.3
Tract: Spartanburg	53.24	-0.5	53.24	-0.5	64.55	3.2	65.43	5.0
Tract Scale: Midscale Chains	51.11	3.51	51.11	3.5	51.43	5.6	60.45	6.0
Competitive Set: Competitors	57.35	-0.61	57.35	-0.6	65.95	2.4	70.07	4.3

Competitive Set Data								
	Current Month	% Chg	Year to Date	% Chg	Running 3 Month	% Chg	Running 12 Month	% Chg
Sleep Inn Gaffney	18.14	-47.4	13.14	-47.4	19.77	-39.2	26.15	-30.8
Market: Greenville-Spartanburg, SC	30.52	-17.1	30.52	-17.1	30.52	-14.3	39.25	-3.7
Market Class: Midscale w/o F&B Class	36.66	-20.2	36.66	-20.2	38.28	-14.5	49.92	-3.1
Tract: Spartanburg	27.17	-7.2	27.17	-7.2	27.62	-10.1	34.45	-0.5
Tract Scale: Midscale Chains	30.48	-9.4	26.48	-9.4	36.95	-1.2	43.96	3.0
Competitive Set: Competitors	25.27	-4.2	25.27	-4.2	27.55	-3.5	31.86	-0.3

Census					
Properties		Rooms		Sample	
Properties	Rooms	Properties	Rooms	Properties	Rooms
161	14,807	107	11,152		74.9
46	4,265	45	4,177		97.8
49	4,127	25	2,552		61.5
14	1,203	12	1,037		85.2
5	351	5	351		100.0

Market: Greenville-Spartanburg, SC			
Under Construction		Planning	
Properties	Rooms	Properties	Rooms
8	581	10	563

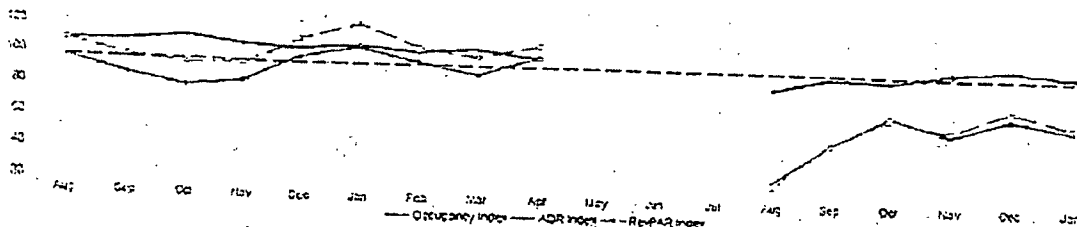
See Help page for pipeline definitions.

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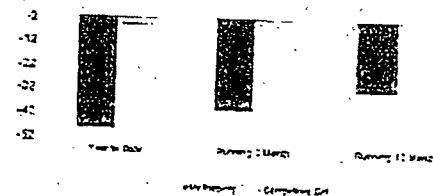
Tab 4 - Competitive Set Report

Deep Inn Gallery 334 Wenden Dr. Coligny, SC 29916-2023 Phone: (804) 457-5337
 STR # 32051 Chain: Dr. 50123 Mgr: None Owner: None
 For the Month of January 2005 Date Created: February 20, 2005 Monthly Competitive Set Data Includes Subject Property

Monthly Indexes



RevPAR Percent Change



		2004												Year To Date			Running 3 Month			Running 12 Month		
		Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	2004	2003	2002	2004	2003	2002	2004	2003	2002
My Property		115	115	115	115	115	115	115	115	115	115	115	115	115	115	115	115	115	115	115	115	115
Competitive Set		115	115	115	115	115	115	115	115	115	115	115	115	115	115	115	115	115	115	115	115	115
Index		100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
RevPAR		115	115	115	115	115	115	115	115	115	115	115	115	115	115	115	115	115	115	115	115	115
% Chg																						
My Property		115	115	115	115	115	115	115	115	115	115	115	115	115	115	115	115	115	115	115	115	115
Competitive Set		115	115	115	115	115	115	115	115	115	115	115	115	115	115	115	115	115	115	115	115	115
Index		100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
RevPAR		115	115	115	115	115	115	115	115	115	115	115	115	115	115	115	115	115	115	115	115	115
% Chg																						
My Property		115	115	115	115	115	115	115	115	115	115	115	115	115	115	115	115	115	115	115	115	115
Competitive Set		115	115	115	115	115	115	115	115	115	115	115	115	115	115	115	115	115	115	115	115	115
Index		100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
RevPAR		115	115	115	115	115	115	115	115	115	115	115	115	115	115	115	115	115	115	115	115	115
% Chg																						
My Property		115	115	115	115	115	115	115	115	115	115	115	115	115	115	115	115	115	115	115	115	115
Competitive Set		115	115	115	115	115	115	115	115	115	115	115	115	115	115	115	115	115	115	115	115	115
Index		100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
RevPAR		115	115	115	115	115	115	115	115	115	115	115	115	115	115	115	115	115	115	115	115	115
% Chg																						
My Property		115	115	115	115	115	115	115	115	115	115	115	115	115	115	115	115	115	115	115	115	115
Competitive Set		115	115	115	115	115	115	115	115	115	115	115	115	115	115	115	115	115	115	115	115	115
Index		100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
RevPAR		115	115	115	115	115	115	115	115	115	115	115	115	115	115	115	115	115	115	115	115	115
% Chg																						

Sleep Inn Gaffney 834 Windsor Dr Gaffney, SC 29341-2523 Phone: (854) 457-5337
 STR# 03075 ChainID: SC1189 Mgr/Cr: None Owner: None
 For the Month of: January 2009 Date Created: February 10, 2009

Jan 1st - New Year's Day
Jan. 19th - Martin Luther King Day
Jan 20th - Inauguration Day

Jan 1st - New Year's Day
Jan 21st - Martin Luther King Day

Sun	Mon	Tue	Wed	Thur	Fri	Sat
4	5	6	7	8	9	10
11	12	13	14	15	16	17
18	19	20	21	22	23	24
25	26	27	28	29	30	31

Sun	Mon	Tue	Wed	Thu	Fri	Sat
		1	2	3	4	5
6	7	8	9	10	11	12
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20	21	22	23	24	25	26
27	28	29	30	31		

2007 2008

☐ = Monthly Only
☐ = Monthly & Daily

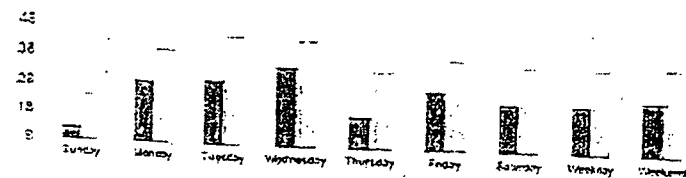
Sleep In Company 124 Meadows Dr. Gaston, SC 29311-2421 Phone: (843) 487-6007
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Sleep In Company 124 Meadows Dr. Gaston, SC 29311-2421 Phone: (843) 487-6007
 378-8200000

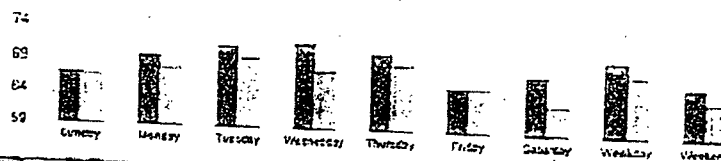
U.S. CO. NAME _____ DISTR. NAME _____

For the Month of January 2009 Date Canceled February 22, 2009 Monthly Contribution of \$60.00 Includes Subject Property

Current: Month Occupancy



Current Month ADR

[illegible]

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5453 W. GUNNEY RD. GUNNEY, CO 80924-1279 Phone: (303) 437-4337
 5711 E. GUNNEY GUNNEY, CO 80924-1279
 Mr. Name Owner: None
 From: March 21, January 2000 Date: Creating Program on: 2000 Date: Comprehensive Soil Data Entered: 2/20/00
 Date: Comprehensive Soil Data Entered: 2/20/00



Tab 8 - Help

Definitions

- ADR (Average Daily Rate)** - Room revenue divided by rooms sold
- Competitive (Comp) Set** - A peer group of competitive hotels selected by hotel management to benchmark the subject property's performance.
- Contract** - Rooms sold/revenue from bookings sold at rates stipulated by contracts including airline crews and permanent guests.
- Exchange Rate** - The factor used to convert revenue from US Dollars to the local currency. Reports display the monthly exchange rates (the rate on the last day of the month) and the daily exchange rates on the Daily by Month pages. STR obtains exchange rate data from Oanda.com. Any aggregated number in the report (YTD, Running 3 month, Running 12 month) uses the exchange rate of each relative month when calculating the data.
- Food & Beverage Revenue (F&B)** - Revenue derived from food and beverage sales.
- Group** - Rooms sold/revenue from bookings sold simultaneously in blocks of ten (10) or more.
- Index (Occupancy, ADR, RevPAR)** - Property performance divided by competitive set performance multiplied by 100.
- Market Class** - Class is an industry categorization which includes chain-affiliated and independent hotels. The class for a chain-affiliated hotel is the same as its chain scale. An independent hotel is assigned a class based on its ADR, relative to that of the chain hotels in their geographic proximity. There are six (6) class groups: Luxury, Upper Upscale, Upscale, Midscale with F&B, Midscale without F&B, and Economy.
- Market Class Combined (or Collapsed)** - If a single class segment is insufficient for reporting, classes are combined. There are three combined class segments: Luxury and Upper Upscale, Upscale and Midscale w/ F&B, and Midscale w/o F&B and Economy.
- Market Scale** - Hotels located in the subject property's market and classified in the subject property's STR chain scale segment. There are seven (7) scale groups: Luxury, Upper Upscale, Upscale, Midscale with F&B, Midscale without F&B, Economy and Independent.
- Market Scale (Collapsed)** - Hotels located in the subject property's market and classified in the subject property's STR chain scale segment. There are two (2) market scale (collapsed) groups: Upscale (includes Luxury, Upper Upscale, Upscale, Independent) and Midscale/Economy (includes Midscale with F&B, Midscale without F&B, Economy).
- MTD (Month to Date)** - If a month ends during the current week, the MTD number would represent the month that ended.
- Occupancy** - Rooms sold divided by rooms available multiplied by 100.
- Other Revenue** - All hotel revenue other than room and food and beverage revenue.
- Percent Change (% Chg)** - Amount of growth - up, down or flat - this period versus same period last year (day, week, running 28 days, running month-to-date). Calculated as $(TY-LY)/LY \times 100$.
- Percent Change Rank (Occupancy, ADR, RevPAR)** - The percent change for the property is compared to the percent change of each hotel in the comp set.
- Rank (Occupancy, ADR, RevPAR)** - Property performance ranked versus hotels in the competitive set (e.g. a "3 of 6" ADR ranking means the subject hotel's absolute ADR is third highest of the six competitors).
- RevPAR (Revenue per Available Room)** - Room revenue divided by rooms available
- Room Revenue** - Revenue derived from guestroom rental.
- Segmented Data** - Rooms sold and revenue data broken down by Transient, Group, and Contract.
- Tract Scale** - Hotels located in the subject property's tract and classified in the subject property's STR chain scale segment. There are four (4) tract scale groups: Upscale (includes Luxury, Upper Upscale, Upscale), Midscale (includes Midscale with F&B, Midscale without F&B), Economy and Independent.
- Transient** - Rooms sold/revenue from guests with reservations at Rack, Corporate, Corporate Negotiated, Package, Government or foreign traveler rates.
- Planning** - The project will go out for bids, construction will start within 4 months, or an architect/engineer has been selected for the project and plans are underway.
- Under Construction** - Ground has been broken or the owner is finalizing bids on the prime (general) contract.

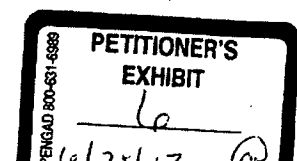
FAQ

- How is my hotel performing versus competition?**
The monthly STAR report provides timely occupancy, average room rate, revenue per available room benchmarking of your hotel's performance versus your own selected competitors and an STR defined industry segment.
- Is my hotel's data included in the competitive numbers?**
It depends on your preference. Check the summary page to see if your hotel's data is included or excluded in the competitive set numbers.
- How does STR determine currency and exchange rates?**
Currency is user-defined and is displayed at the top of the report. STR obtains exchange rate data from Oanda.com.
- How are percentage changes computed?**
Hotel and competitive performance changes are measured against same period prior year.
- Why do my percentage change numbers have such a large range?**
The data for this year vs. the same period last year may vary greatly. Consider if you sold 2254 rooms this year vs. 743 last year, the percent change would be 208.7% $((2254-743)/743) \times 100$.
- What is an index?**
An index is an easy way to compare your hotel's performance versus competition. An index of 100 or higher means your hotel's absolute performance is the same or better than competition.
- What does the "Rank" information mean?**
Your hotel's performance is ranked against the other properties in your competitive set. If your hotel's RevPAR rank is "2 of 6", that means your hotel's RevPAR was second highest of the six hotels in your competitive set.
- What does "running 28 days" mean?**
The most recent 28 days historical performance. The running 28 day numbers are based on the most current 28-day period, ending with the last day included in the weekly report.
- What does "run MTD" mean?**
Running month-to-date. The MTD numbers are based on a calendar month and include all days of the same month, through the most recent calendar day included in the report. If the most recent week's reporting includes data in two calendar months, the MTD numbers only include data from the recently ended month.
- What if there are blanks in my competitive set numbers?**
Your competitive set did not include sufficient data for reporting. A minimum of three (3) hotels excluding the subject property must report data in order for STR to provide competitive set performance.
- What if there are blanks in my competitive set percentage change?**
Your competitive set did not include sufficient data for reporting prior year data.
- What is "Pipeline" on the Summary Tab?**
Pipeline data is generated based on the STR/WTW/Dodge Construction Supply Pipeline database and details hotels that are being planned but not yet open. Every month STR receives data feeds from its hotel clients and Dodge Construction to create a definitive database for hotels in planning, pre-planning or under construction. The data is widely used by investment banks, development groups and hotel owners to estimate future nationwide supply growth and track supply changes in the market.
- Who can I contact if I have more questions?**
Check out the glossary and FAQ at www.smithtravelresearch.com or e-mail info@smithtravelresearch.com.

SLEEP INN INCOME STATEMENT

For the 1 Month and 12 Months Ended December 31, 2008

	1 Month Ended December 31, 2008	12 Months Ended December 31, 2008
Sales		
JOB REVENUE	\$ 40,548.18	\$ 163,909.64
Less Returns & Allowances	0.00	0.00
Total Sales	<u>40,548.18</u>	<u>163,909.64</u>
Cost of Goods Sold		
PURCHASES	2,568.58	15,186.45
EQUIPMENT RENTAL	0.00	382.50
WAGES	2,792.50	34,279.73
CREDITCARD EXPENSE	1,065.03	5,170.33
Total Cost of Goods Sold	<u>6,426.17</u>	<u>55,019.01</u>
Gross Profit	<u>34,121.99</u>	<u>108,890.63</u>
Operating Expenses		
SALES TAX	4,355.15	8,155.67
LEGAL & ACCOUNTING	1,275.00	1,275.00
ADVERTISING	1,000.00	2,202.00
VEHICLE EXPENSE	485.91	918.11
TELEPHONE	773.02	2,650.28
MOBILE PHONE	0.00	886.60
UTILITIES	3,556.31	14,258.53
INSURANCE	0.00	2,459.68
UNIFORMS OR LAUNDRY	0.00	101.91
REPAIRS & MAINTENANCE	550.00	693.25
SECURITY	0.00	2,970.03
BANK SERVICE CHARGE	0.00	2,581.43
INTEREST	12,964.61	34,830.30
PEST CONTROL	90.00	380.00
SANITATION	110.87	1,074.52
COMMISSIONS	877.73	3,585.55
TAXES-LICENSES-FEES	3,112.07	12,422.95
Total Operating Expenses	<u>29,130.67</u>	<u>92,685.83</u>
Operating Income (Loss)	<u>4,991.32</u>	<u>16,204.80</u>
Net Income (Loss)	<u>\$ 4,991.32</u>	<u>\$ 16,204.80</u>

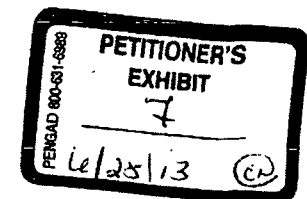


From: ROB WEAVER [robert.weaver@cherokeecountysc.com]
Sent: Thursday, February 03, 2011 12:41 PM
To: Will Dawson
Subject: Re: 834 Windslow Drive

Will,

Thanks for the information. I hate to disappoint you, but this is NOT a new revelation. I agree the business value and personal property has to be separated from the real estate. That is why I used the cost approach and the income approach. The cost approach obviously excludes both business value and personal property and easy to use & understand. I know its limitations, but this is mass appraising. I don't have time to spend three weeks on one property. When I used the income approach, I excluded the business value by using the Rushmore method and subtracting out the personal property. Also, you need to be aware of s.c code section 40-60-30. An attorney can represent taxpayers during the administrative tax process, but CAN NOT form an opinion of value or conduct appraisal activities. Have a nice day.

Thanks, Rob



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Hendersonville
TN 37075

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Fax: +1 (615) 824 3848

Sleep Inn Gaffney Monthly STAR Report

For the Month of: January 2009

STR #: 38099

Date Created: February 20, 2009

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Monthly Performance at a Glance
STAR Summary
Competitive Set Report
Response Report
Day of Week & Weekday/Weekend
Daily Data for the Month
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PETITIONER'S
EXHIBIT

PENGAO 800-631-6989

6/25/13

23

Tab 2 - Monthly Performance at a Glance - My Property vs. Competitive Set

Sleep Inn Gaffney 834 Winslow Dr Gaffney, SC 29341-2623 Phone: (864) 487-5337

STR # 38099 ChainID: SC169 MgtCo: None Owner: None

For the Month of: January 2009 Date Created: February 20, 2009 Monthly Competitive Set Data Includes Subject Property

January 2009

	Occupancy (%)			ADR			RevPAR		
	My Prop	Comp Set	Index	My Prop	Comp Set	Index	My Prop	Comp Set	Index
Current Month	26.1	38.4	68.0	69.44	67.36	103.1	18.14	25.87	70.1
Year To Date	26.1	38.4	68.0	69.44	67.36	103.1	18.14	25.87	70.1
Running 3 Month	27.4	40.0	68.6	72.02	68.95	104.4	19.77	27.58	71.7
Running 12 Month	35.5	48.3	73.5	73.67	70.07	105.1	26.16	33.86	77.3

January 2009 vs. 2008 Percent Change (%)

	Occupancy			ADR			RevPAR		
	My Prop	Comp Set	Index	My Prop	Comp Set	Index	My Prop	Comp Set	Index
Current Month	-41.7	-3.6	-39.5	-9.7	-0.6	-9.2	-47.4	-4.2	-45.1
Year To Date	-41.7	-3.6	-39.5	-9.7	-0.6	-9.2	-47.4	-4.2	-45.1
Running 3 Month	-36.1	-5.9	-32.1	-4.9	2.4	-7.1	-39.2	-3.6	-36.9
Running 12 Month	-30.8	-4.4	-27.6	-0.2	4.3	-4.3	-30.9	-0.3	-30.7

SMITH TRAVEL RESEARCH

STAR Summary - My Property vs. Comp Set

Industry Segments

834 Winslow Dr Gaffney, SC 29341-2623 Phone (864) 487-5337

STR # 38099 Chain: G SC 189

Mgt Co: None Owner: None

For the Month of January 2009

Date Created: February 20, 2009

Monthly Competitive Set Data Includes Subject Property

Occupancy (%)

	Current Month	% Chg	Year to Date	% Chg	Running 3 Month	% Chg	Running 12 Month	% Chg
Sleep Inn Gaffney	26.1	-41.7	26.1	-41.7	27.4	-36.1	35.5	-30.8
Market: Greenville-Spartanburg, SC	44.2	-14.9	44.2	-14.9	44.6	-13.1	55.8	-6.2
Market Class: Midscale w/o F&B Class	44.9	-19.1	44.9	-19.1	47.1	-14.4	59.8	-6.2
Tract: Spartanburg	43.0	-5.7	43.0	-5.7	42.8	-12.9	52.7	-6.1
Tract Scale: Midscale Chains	45.0	-4.1	45.0	-4.1	45.4	-8.0	54.5	-3.6
Competitive Set: Competitors	38.4	-3.6	38.4	-3.6	40.0	-5.9	48.3	-4.4

Average Daily Rate

	Current Month	% Chg	Year to Date	% Chg	Running 3 Month	% Chg	Running 12 Month	% Chg
Sleep Inn Gaffney	69.44	-9.7	69.44	-9.7	72.02	-4.9	73.67	-0.2
Market: Greenville-Spartanburg, SC	69.08	-2.6	69.08	-2.6	68.63	-1.3	71.46	2.7
Market Class: Midscale w/o F&B Class	81.69	-1.4	81.69	-1.4	81.35	-0.1	83.55	3.3
Tract: Spartanburg	63.24	-0.5	63.24	-0.5	64.56	3.2	65.43	5.9
Tract Scale: Midscale Chains	81.11	-3.6	81.11	-3.6	81.43	6.5	80.45	6.9
Competitive Set: Competitors	67.36	-0.6	67.36	-0.6	68.95	2.4	70.07	4.3

Revenue

	Current Month	% Chg	Year to Date	% Chg	Running 3 Month	% Chg	Running 12 Month	% Chg
Sleep Inn Gaffney	18.14	-47.4	18.14	-47.4	19.77	-39.2	26.16	-30.9
Market: Greenville-Spartanburg, SC	36.52	-17.1	36.52	-17.1	30.58	-14.2	39.85	-3.7
Market Class: Midscale w/o F&B Class	36.68	-20.2	36.68	-20.2	38.28	-14.5	49.92	-3.1
Tract: Spartanburg	27.17	-7.2	27.17	-7.2	27.62	-10.1	34.45	-0.5
Tract Scale: Midscale Chains	36.48	-0.4	36.48	-0.4	36.98	-1.8	43.86	3.0
Competitive Set: Competitors	25.87	-4.2	25.87	-4.2	27.58	-3.6	33.86	-0.3

Census/Sample: Properties & Rooms

	Census		Sample		Sample %
	Properties	Rooms	Properties	Rooms	Rooms
Market: Greenville-Spartanburg, SC	161	14897	107	11153	74.9
Market Class: Midscale w/o F&B Class	46	4266	45	4177	97.9
Tract: Spartanburg	49	4127	28	2552	61.8
Tract Scale: Midscale Chains	14	1203	12	1037	86.2
Competitive Set: Competitors	5	351	5	351	100.0

Supply

Month % Chg	YTD % Chg	Run 3 Mon % Chg	Run 12 Mon % Chg
-3.2	-3.2	-3.2	-26.6
2.2	2.2	2.2	1.8
1.6	1.6	1.6	1.5
0.0	0.0	0.0	0.0
0.0	0.0	0.0	-0.8
0.0	0.0	0.0	0.0

Demand

Month % Chg	YTD % Chg	Run 3 Mon % Chg	Run 12 Mon % Chg
-43.5	-43.6	-38.2	-49.2
-13.0	-13.0	-11.2	-4.5
-17.8	-17.8	-13.0	-4.8
-6.7	-6.7	-12.9	-6.1
-4.1	-4.1	-8.0	-4.4
-3.6	-3.6	-5.9	-4.4

Revenue

Month % Chg	YTD % Chg	Run 3 Mon % Chg	Run 12 Mon % Chg
-49.1	-49.1	-41.2	-49.3
-15.3	-15.3	-12.3	-1.9
-18.9	-18.9	-13.1	-1.7
-7.2	-7.2	-10.1	-0.5
-0.4	-0.4	-1.8	2.1
-4.2	-4.2	-3.6	-0.3

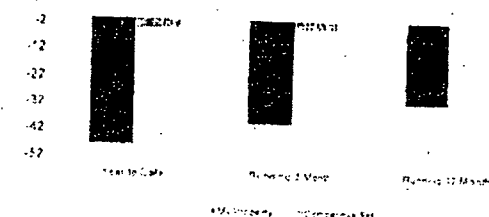
Pipeline

Market: Greenville-Spartanburg, SC			
Under Construction		Planning	
Properties	Rooms	Properties	Rooms
6	581	10	563

See Help page for pipeline definitions

SMITH TRAVEL RESEARCH

09-08-2009 09:04 AM
 479 x 10000 CHAND SGT
 Police Officer January, 2009 Date Created February 26 2009 Monthly Comprehensive Set Data Includes Subject Property

[illegible]

Tab Response Report

Sleep Inn 834 Winston Dr Gaffney SC 29341-2623 Phone (864) 487-5337
 STR # 38099 ChainID SC189 MgtCo None Owner None
 For the Month of: January 2009 Date Created: February 20, 2009

This Year

Jan 1st - New Year's Day
 Jan 19th - Martin Luther King Day
 Jan 20th - Inauguration Day

Last Year

Jan 1st - New Year's Day
 Jan 21st - Martin Luther King Day

January 2009 (This Year)

Sun	Mon	Tue	Wed	Thu	Fri	Sat
				1	2	3
4	5	6	7	8	9	10
11	12	13	14	15	16	17
18	19	20	21	22	23	24
25	26	27	28	29	30	31

January 2008 (Last Year)

Sun	Mon	Tue	Wed	Thu	Fri	Sat
		1	2	3	4	5
6	7	8	9	10	11	12
13	14	15	16	17	18	19
20	21	22	23	24	25	26
27	28	29	30	31		

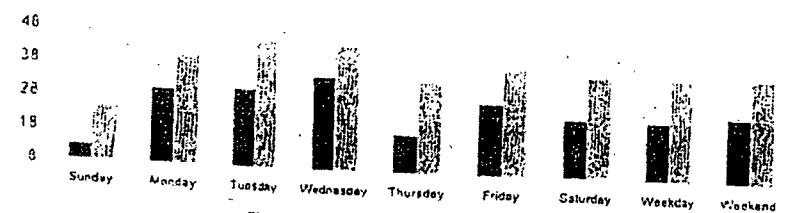
STR#	Name	City, State	Zip	Phone	Rooms	Open Date
38099	Sleep Inn Gaffney	Gaffney, SC	29341-2623	(864) 487-5337	60	1999041
23057	Super 8 Gaffney	Gaffney, SC	29341-1256	(864) 489-1698	60	198609
25813	Quality Inn Gaffney	Gaffney, SC	29341-2712	(864) 487-4200	83	198611
38098	Red Roof Inn Gaffney	Gaffney, SC	29341-2626	(864) 206-0200	63	199904
39236	Hampton Inn Gaffney	Gaffney, SC	29341-3314	(864) 206-0011	85	199911

2007												2008											
Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
●	●	●	●	●	●	●	●	●	●	●	●	○	○	○	○	○	○	○	○	○	○	○	○
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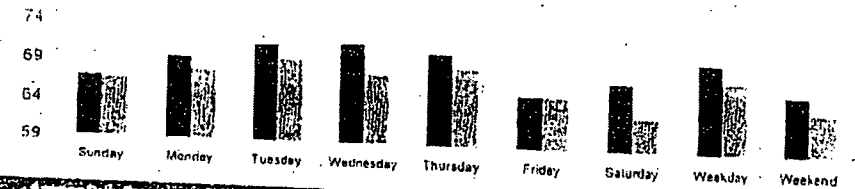
Data received:

- = Monthly Only
- = Monthly & Daily

Current Month Occupancy



Current Month ADR

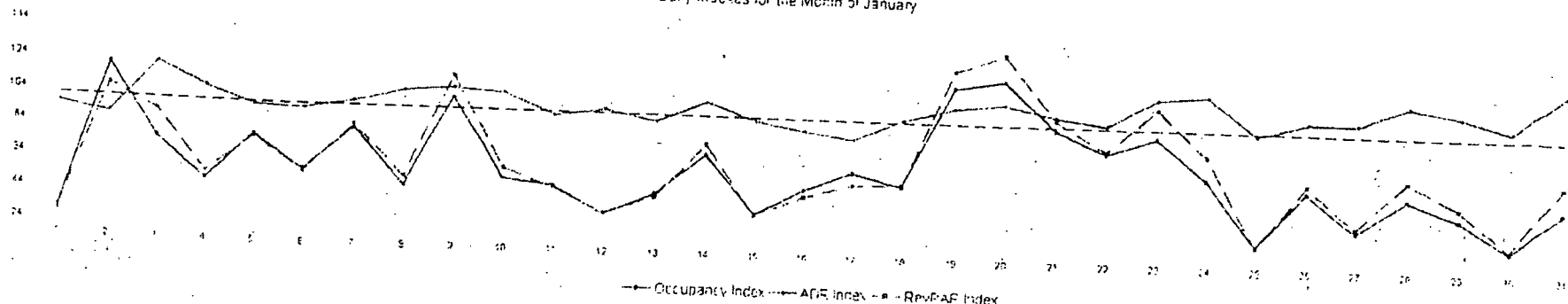


		Occupancy (%)						Average Daily Rate						RevPAR					
		My Property		Competitive Set		Index		My Property		Competitive Set		Index		My Property		Competitive Set		Index	
			% Chg		% Chg		% Chg		% Chg		% Chg		% Chg		% Chg		% Chg		% Chg
Sunday	Current Month	12.8	-59.4	24.6	-1.6	51.8	58.8	66.99	-7.5	66.99	4.1	100.3	-6.4	8.55	-60.5	16.46	2.5	51.9	-61.4
	Year To Date	12.8	-59.4	24.6	-1.8	51.8	58.8	66.99	-7.5	66.99	4.1	100.3	-6.4	8.55	-60.5	16.46	2.5	51.9	-61.4
	Running 3 Month	16.3	-47.5	26.4	-1.4	61.5	47.9	71.49	-1.2	69.07	6.9	103.5	-7.5	11.64	-41.5	18.75	5.3	63.8	-45.3
	Running 12 Month	20.9	-30.4	31.6	-3.2	88.2	-28.1	74.32	1.5	68.27	3.5	108.7	-1.0	15.57	-29.3	21.63	0.1	77.0	-29.4
Monday	Current Month	30.2	-49.0	40.6	-13.1	74.4	-41.3	69.70	-0.7	68.08	-3.5	102.4	3.2	21.05	-43.4	27.63	-16.4	76.2	-39.5
	Year To Date	30.2	-49.0	40.6	-13.1	74.4	-41.3	69.70	-0.7	68.08	-3.5	102.4	3.2	21.05	-43.4	27.63	-16.4	76.2	-39.5
	Running 3 Month	36.3	-38.1	43.3	-3.3	69.7	-38.0	71.87	-3.5	70.90	1.1	101.4	-4.5	21.80	-40.2	30.87	-7.2	70.6	-35.9
	Running 12 Month	36.1	-32.8	43.9	-3.1	73.8	-30.7	74.82	0.7	71.04	4.1	104.0	-3.2	27.01	-32.3	35.21	6.9	76.7	-12.6
Tuesday	Current Month	31.1	-54.2	45.9	-14.9	67.7	-46.2	71.52	1.3	69.70	-2.1	102.5	3.4	22.21	-53.6	32.57	-16.7	69.4	-44.3
	Year To Date	31.1	-54.2	45.9	-14.9	67.7	-46.2	71.52	1.3	69.70	-2.1	102.5	3.4	22.21	-53.6	32.57	-16.7	69.4	-44.3
	Running 3 Month	33.5	-38.5	48.0	-10.1	70.6	-31.0	73.57	5.9	70.78	1.5	104.1	-4.3	24.94	-34.9	32.57	-8.7	76.0	-20.7
	Running 12 Month	43.9	-32.3	56.1	-4.7	72.2	-29.0	74.72	2.3	71.58	4.6	103.8	-2.2	32.78	-30.8	40.34	-0.2	81.2	-30.6
Wednesday	Current Month	35.7	-46.7	45.2	-16.3	76.1	-35.8	71.91	14.2	68.15	1.1	105.5	13.0	25.72	-39.1	30.77	-16.0	83.6	-27.5
	Year To Date	35.7	-46.7	45.2	-16.9	76.1	-35.8	71.91	14.2	68.15	1.1	105.5	13.0	25.72	-39.1	30.77	-16.0	83.6	-27.5
	Running 3 Month	36.6	-40.7	47.8	-14.2	71.5	-30.0	72.73	1.1	69.66	2.7	104.4	-1.6	22.28	-40.1	29.85	-11.8	74.8	-32.0
	Running 12 Month	39.4	-36.8	54.8	-8.3	71.9	-31.1	73.25	0.5	71.07	4.6	104.1	-3.8	28.17	-36.4	38.97	-4.3	74.9	-33.6
Thursday	Current Month	19.4	-58.8	35.1	-20.0	55.0	-48.5	70.91	-19.8	60.23	-6.1	102.4	-35.9	13.76	-73.2	24.43	-24.8	58.3	-67.0
	Year To Date	19.4	-58.8	35.1	-20.0	55.0	-48.5	70.91	-19.8	60.23	-6.1	102.4	-35.9	13.76	-73.2	24.43	-24.8	58.3	-67.0
	Running 3 Month	23.3	-49.6	36.2	-13.8	61.0	-41.5	74.03	-20.5	69.54	1.8	106.5	-21.7	17.76	-59.9	26.59	-12.4	64.9	-54.3
	Running 12 Month	33.7	-37.1	45.7	-12.2	67.8	-20.4	75.59	-1.7	70.61	6.8	107.1	-8.0	25.47	-38.2	35.11	-5.2	72.5	-34.1
Friday	Current Month	29.3	-10.8	39.7	16.4	73.8	-23.4	66.03	7.3	66.02	-6.9	100.0	-13.3	19.33	-17.3	26.18	24.5	73.8	32.5
	Year To Date	29.3	-10.8	39.7	16.4	73.8	-23.4	66.03	7.3	66.02	-6.9	100.0	-13.3	19.33	-17.3	26.18	24.5	73.8	32.5
	Running 3 Month	27.9	-27.5	42.0	4.3	66.4	-30.5	65.51	-6.8	66.50	4.3	102.3	-12.5	19.11	-33.8	28.44	8.9	57.9	-39.2
	Running 12 Month	37.9	-21.7	49.5	7.0	70.5	-23.7	71.49	-7.2	68.13	3.8	104.9	-8.8	27.31	-23.5	33.75	5.8	80.3	-27.7
Saturday	Current Month	25.5	-12.0	38.2	18.5	66.8	-26.0	65.06	3.4	63.65	5.3	100.9	-1.8	17.37	-9.0	24.29	24.1	71.5	-27.3
	Year To Date	25.5	-12.0	38.2	18.5	66.8	-26.0	65.06	3.4	63.65	5.3	100.9	-1.8	17.37	-9.0	24.29	24.1	71.5	-27.3
	Running 3 Month	29.7	-13.2	42.8	4.1	72.5	-18.5	71.59	-1.0	65.71	1.5	108.9	-2.4	21.23	-14.0	28.93	5.7	79.1	-19.7
	Running 12 Month	37.2	-15.3	47.5	1.6	78.2	-20.5	71.22	-2.1	57.39	2.2	109.7	-4.3	20.47	-21.0	32.04	1.9	87.6	-23.5
Weekday (Sun-Thurs)	Current Month	25.5	-52.3	38.2	-14.9	66.9	-44.0	70.84	-10.2	59.57	-2.1	103.1	-8.5	18.04	-57.5	26.18	-16.5	66.3	-49.0
	Year To Date	25.5	-52.3	38.2	-14.8	66.9	-44.0	70.84	-10.2	59.57	-2.1	103.1	-8.5	18.04	-57.5	26.18	-16.5	66.3	-49.0
	Running 3 Month	25.9	-45.0	39.4	-9.3	68.2	-35.6	72.85	-4.5	72.10	2.3	103.9	-6.7	16.68	-44.7	27.63	-7.2	70.9	-36.8
	Running 12 Month	34.7	-34.4	45.2	-6.7	71.9	-29.7	74.68	0.5	71.01	4.9	105.2	-4.3	25.91	-33.9	34.25	-7.1	75.6	-32.5
Weekend (Fri-Sat)	Current Month	27.4	-11.4	38.9	17.6	70.4	-24.8	64.99	-7.5	64.86	6.1	103.0	-6.1	18.35	-13.5	25.24	24.8	72.7	-30.7
	Year To Date	27.4	-11.4	38.9	17.5	70.4	-24.6	64.98	-7.5	64.86	6.1	103.0	-6.1	18.35	-13.6	25.24	24.8	72.7	-30.7
	Running 3 Month	28.8	-20.5	41.4	4.2	69.6	-23.8	70.15	-4.0	60.34	2.9	106.8	-7.4	20.21	-24.3	27.45	7.7	73.6	-29.4
	Running 12 Month	37.5	-20.5	48.5	1.9	77.3	-21.9	71.36	-2.7	67.77	3.0	109.3	-5.0	26.79	-27.3	32.99	4.8	81.4	-25.5
Total	Current Month	26.1	-41.7	38.4	-3.5	68.0	-39.5	68.44	-9.7	67.26	-0.8	103.1	-9.2	18.14	-47.4	25.87	-4.2	70.1	-45.1
	Year To Date	26.1	-41.7	38.4	-3.6	68.0	-39.5	68.44	-9.7	67.26	-0.8	103.1	-9.2	18.14	-47.4	25.87	-4.2	70.1	-45.1
	Running 3 Month	27.4	-36.1	40.6	-5.9	68.6	-32.1	72.02	4.9	68.85	7.4	104.4	-7.1	19.77	-39.2	27.38	-1.6	71.7	-36.9
	Running 12 Month	35.5	-30.8	42.3	-4.4	73.5	-27.6	73.57	-0.2	72.07	4.1	105.1	-4.3	26.18	-20.8	33.85	9.3	77.3	-10.7

Tab 7 - Daily Data for the Month

Report for: January 1994
 Date: 01/31/94
 Period: 01/01/94 - 01/31/94
 Data Source: Smith Travel Research
 Data Type: Daily Data
 Data Period: 01/01/94 - 01/31/94
 Data Source: Smith Travel Research
 Data Type: Daily Data
 Data Period: 01/01/94 - 01/31/94

Daily Indexes for the Month of January



	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	S
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ADR (Average Daily Rate) - Room revenue divided by rooms sold

Competitive (Comp) Set - A group of competitive hotels selected by hotel management to benchmark the subject property's performance

Contract - Room's schedule from bookings sold at rates stipulated by contracts including airline crews and non-travel guests

Exchange Rate - The factor used to convert revenue from US Dollars to the local currency. Reports display the monthly exchange rates (the rate on the last day of the month) and the daily exchange rates on the Daily by Month pages. STR obtains exchange rate data from Citicorp.com. Any aggregated number in the report MTD, Running 28 days, Planning 12 months uses the exchange rate of the first day of the month when calculating the data.

Food & Beverage Revenue (F&B) - Revenue derived from food and beverage sales

Group - Room's sold to one or more sold a multi-night stay in blocks of 10 or more

Index (Occupancy, ADR, RevPAR) - Property performance divided by competitive set performance multiplied by 100.

Market Class - Class is an industry categorization which includes the affiliated and independent hotels. The class for a chain-affiliated hotel is the same as its chain scale. An independent hotel is assigned a class based on its ADR relative to that of the chain hotels in the geographic proximity. There are six (6) class groups: Luxury, Upper Upscale, Upscale, Midscale with F&B, Midscale without F&B, and Economy.

Market Class Combined (or Collapsed) - If a single class segment is insufficient for reporting, classes are combined. There are three combined class segments: Luxury and Upper Upscale, Upscale and Midscale w/ F&B, and Midscale w/o F&B and Economy.

Market Scale - Hotels located in the subject property's market and classified in the subject property's STR chain scale segment. There are seven (7) scale groups: Luxury, Upper Upscale, Upscale, Midscale with F&B, Midscale without F&B, Economy and Independent.

Market Scale (Collapsed) - When located in the subject property's market and classed in the subject property's STR chain scale segment. There are two (2) market scale collapsed groups: Upscale (includes Luxury, Upper Upscale, Upscale, Independent) and Midscale (includes Midscale with F&B, Midscale without F&B, Economy).

MTD (Month to Date) - If a month ends during the current week, the MTD number would represent the month that ended.

Occupancy - Rooms sold divided by rooms available multiplied by 100.

Other Revenue - All hotel revenue other than room and food and beverage revenue

Percent Change (% Chg) - Amount of growth or decline in a period versus same period last year (May, week, running 28 days, running month to date). Calculated as $(\text{FYLC} - \text{FYLY}) / \text{FYLY} * 100$.

Percent Change Rank (Occupancy, ADR, RevPAR) - The percent change for the property is compared to the percent change of each hotel in the comp set.

Rank (Occupancy, ADR, RevPAR) - Property performance ranked versus hotels in the competitive set. A 1 of 10 ADR ranking means the subject hotel's absolute ADR is third highest of the 10 competitors.

RevPAR (Revenue per Available Room) - Room revenue divided by rooms available

Room Revenue - Revenue derived from guestroom rental

Segmented Data - Rooms sold and revenue data broken down by Transient, Group, and Contract

Fract Scale - Hotels located in the subject property's market and classed in the subject property's STR chain scale segment. There are four (4) fract scale groups: Upscale (includes Luxury, Upper Upscale, Upscale), Midscale (includes Midscale with F&B, Midscale without F&B, Economy and Independent).

Transient - Rooms sold/revenue from guests with reservations at Pack, Corporate, Corporate Negotiated, Package, Government or foreign traveler rates.

Planning - The project will go out for bids, construction will start within 4 months or an architect/engineer has been selected for the project and plans are underway.

Under Construction - Ground has been broken or the owner is financing bids on the entire (several) contract.

F&B

How is my hotel performing versus competition?

The monthly STR report provides timely occupancy, average room rate, revenue per available room benchmarking of your hotel's performance versus your own selected competitors and an STR defined industry segment.

Is my hotel's data included in the competitive numbers?

It depends on your preference. Check the summary page to see if your hotel's data is included or excluded in the competitive set numbers.

How does STR determine currency and exchange rates?

Currency is user defined and is displayed at the top of the report. STR obtains exchange rate data from Citicorp.com.

How are percentage changes computed?

Hotel and competitive performance changes are measured against same period prior year.

Why do my percentage change numbers have such a large range?

The data for this year vs. the same period last year may vary greatly. Consider if you sold 2204 rooms this year vs. 743 last year, the percent change would be 208.7% $((2204 - 743) / 743) * 100$.

What is an index?

An index is an easy way to compare your hotel's performance versus competition. An index of 100 or higher means your hotel's absolute performance is the same or better than competition.

What does the "Rank" information mean?

Your hotel's performance is ranked against the other properties in your competitive set. If your hotel's RevPAR rank is 12 of 16, that means your hotel's RevPAR was second highest of the 16 hotels in your competitive set.

What does "running 28 days" mean?

The most recent 28 days historical performance. The running 28 day numbers are based on the most current 28-day period ending with the last day included in the weekly report.

What does "run MTD" mean?

Running month-to-date. The MTD numbers are based on a calendar month and include all days of the same month through the most recent calendar day included in the report. If the most recent week's reporting includes data in the calendar month, the MTD numbers only include data from the recently closed month.

What if there are blanks in my competitive set numbers?

Your competitive set did not include sufficient data for reporting. A minimum of three (3) hotels, excluding the subject property, must report data in order for STR to provide competitive set performance.

What if there are blanks in my competitive set percentage change?

Your competitive set did not include sufficient data for reporting prior year data.

What is "Pipeline" on the Summary Tab?

Pipeline data is generated based on the STR/FWR/Dodge Construction Supply Pipeline database and details hotels that are being planned but not yet open. Every month STR receives data feeds from its hotel clients and Dodge Construction to create the pipeline database. It helps in planning, pre-planning or under construction. The data is widely used by investment banks, development groups and hotel owners to estimate future nationwide supply growth and track supply changes in the market.

Who can I contact if I have more questions?

Check out the privacy and F&B at www.smithtravelresearch.com or e-mail info@smithtravelresearch.com.

Understanding the Unique Aspects of Hotel Property Tax Valuation

With the end of the real estate boom and with property values declining in many major markets, property tax assessments on many hotels continue to reflect the higher values of the last several years. If a hotel's property taxes are based on an undetected overassessment, the expense can represent a drain on cash flow and result in decreased market value. Hotel property owners should gauge the market values of their hotels and initiate appeals on their assessments if appropriate. Any savings achieved represent pure profit and result in an enhanced value. This article explores the widely accepted method for performing hotel valuations for tax purposes. How to determine whether a hotel is overassessed is explained as well.

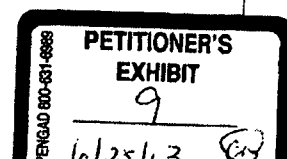
In the current overbuilt real estate climate, property taxes continue to be one of the least understood expenses incurred by hotel owners. Under the *Uniform System of Accounts for Hotels*, the property tax expense is classified as "fixed."¹ This is actually something of a misnomer, although a hotel's property tax expense does not vary with

occupancy, rate, or total revenue, it can and often does vary from year to year and from property to property. That this expense is classified as a fixed expense underscores the perception that it cannot be controlled by ownership or management. This is not always so, however, and an opportunity frequently exists for educated management or

1. The Hotel Association of New York City, Inc., *Uniform System of Accounts for Hotels*, 8th rev. ed. (New York: The Hotel Association of New York City, Inc., 1986).

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ownership to exercise at least some degree of control over this expense by contesting the property's tax assessment. Often a hotel's largest fixed operating expense, property tax, if based on an undetected overassessment, can represent a drain on cash flow and result in decreased market value. Any savings that can be achieved in a hotel's annual property tax expense represent a dollar-for-dollar addition to the hotel's bottom line and a resulting enhancement of value. It is thus in the strongest interest of a hotel's ownership or management to pursue the issue of their property's assessment if the property is overassessed. This article explores why so many hotels and motels throughout the United States are overassessed and provides a step-by-step case study of how an appropriate assessment may be developed. It also provides several "acid tests" that can be used to determine whether a hotel or motel property is overassessed.

WHAT IS THE ASSESSED VALUE?

Real estate taxes are one of the primary revenue sources used by municipalities to obtain capital for public expenditures such as parks, highways, interest on bonds, and other government services. Based on the concept that the tax burden should be distributed in proportion to the value of all properties within a taxing jurisdiction, a system of assessments is established by a local assessor. Theoretically, the assessed value placed on each parcel bears a definite relationship to market value, so properties of equal market values will have similar assessments. Depending on the taxing policy of the municipality, property taxes can be based on the value of only the real property (i.e., real estate tax) or on the value of the personal property (i.e., per-

sonal property tax) plus the value of the real property.

While the exact way in which property taxes are levied varies, there are two commonalities among all tax jurisdictions. Property taxes are always an ad valorem tax; that is, the amount of taxes payable for any given property in any given period is always based on the property's value relative to other properties in the tax jurisdiction, and is always calculated by multiplying the tax rate times the property's assessed value (also called the assessment). In some tax jurisdictions, the assessment may be adjusted by an equalization ratio before the property tax rate is applied.

Another commonality among property taxes is that all property assessments feature some relationship to market value. Different tax jurisdictions may have different names for market value; it may be called "fair cash value," "fair market value," or "fair value." The underlying definitions, however, are almost always identical to or materially similar to the concept of market value as it is defined by the Appraisal Institute. Further, in accordance with the Appraisal Institute's requirement, an assessor's estimate of market value is always as of a specified date.

Annual reassessment is not a common practice in most tax jurisdictions. Many account for a property's change in value over time by calculating marketwide trends and using sophisticated computer models. Other jurisdictions provide for reassessment only upon a sale, or when a change in control of a property can be construed. Still others provide for jurisdiction-wide reassessment every two to ten years. It is important to note that even when reassessment is required annually, local assessors' offices are generally not staffed or funded enough to provide for annual reap-

analysis in depth. In most tax jurisdictions, these factors mean that in any given tax year a property may be overassessed. Further, the problem is worse for hotels than for other kinds of properties.

WHAT MAKES LODGING FACILITIES UNIQUE?

Lodging facilities are unique forms of real estate; in addition to land and improvements, they are labor-intensive, retail businesses that are extremely dependent on the management skills of a hotel operator. Unlike other forms of real estate such as office buildings, which are typically encumbered by long-term leases, lodging facilities require the leasing of guestrooms on what is often a daily basis. The ability to manage the short-term leasing of guestrooms also requires the expertise of an operator to maximize the average room rates. This task is further complicated by the different characteristics of the market segments to which typical lodging facilities cater.

One of the most common ways in which a hotel's ownership can address the issues raised by the absence of long-term leases is to affiliate the property with a nationally or regionally known hotel brand name. This can be accomplished either by franchising the property (a process by which a brand name is used under a license agreement) or by affiliation with a name-brand management company. The use of a recognized brand name generally increases a hotel's revenue-generating ability and thus adds to the hotel's bottom line, enhancing its value. Yet this portion of the property's value is clearly attributable to the brand name rather than to the property's real estate component, as will be discussed later in this article.

With no long-term leases to protect ownership, and with tenancy

turning over on a daily basis, hotels are often the first form of real estate to show the effects of local market trends on their income statements. This means that of all the different real estate types hotel values can fluctuate most rapidly. In temporarily overbuilt markets, hotels that suffer economically in the form of decreased occupancy or room rates experience a form of external obsolescence that many assessors would recognize if it were pointed out to them as such.

Another difference between hotels and other standard forms of real estate is that, unlike alternative property types, lodging facilities generally derive income from multiple revenue streams. In addition to the sale of guestrooms, a typical full-service lodging facility derives revenues from the sale of food and beverage items, the resale of telephone service, and the sale of retail items in gift shops. Other revenue sources may include commissions from vending machines located on the premises, fees for guest laundry and dry cleaning, charges for in-room movies and other similar amenities, and charges for parking (most frequently found in densely developed urban areas).

Larger and more complex types of hotels, such as large convention hotels or resorts, may derive income through an even wider array of revenue sources, including the rental of recreational facilities such as bicycles and bench chairs; the rental of meeting rooms, audio/visual equipment and related services; and even the rental of portions of the facility for retail or office space usage. Further, these types of hotels can be particularly likely to generate large amounts of revenues from the banquet and catering activities associated with the various types of group business that they accommodate.

Management expertise is required, not only to promote these

With no long-term leases to protect ownership, and with tenancy turning over on a daily basis, hotels are often the first form of real estate to show the effects of local market trends on their income statements.

other revenue streams, but also to minimize expenses associated with their production. Such activities as the sale of food and beverage items and the rental of audio/visual equipment can be the effective equivalent of conducting numerous, retail-oriented businesses on the premises of a particular hotel.

Another unique factor in the operation of hotels and motels is that significant amounts of personal property, including furniture and equipment, are required. Typically, the useful life of a hotel's personal property is shortened by heavy use, and replacement of the furniture and equipment is required at regular intervals to maintain the quality, image, and income potential of the overall facility.

The reason that so many hotels are overassessed has to do with the fact that many tax jurisdictions do not officially recognize the unique nature of hotels. The successful operation of this extraordinarily management-intensive form of real estate often requires the assistance of a brand name, frequently franchised in some form, to generate revenues. Further, an asset typically referred to as a hotel includes large amounts of personal property required to render the property functional as a hotel: beds, kitchen equipment, banquet chairs, and window coverings are among the personality that a typical hotel houses and uses in the revenue-generating process.

Obviously, the valuation of lodging facilities is also unique and typically requires a thorough understanding of all business aspects of hotel property operation. When estimating a market value for tax assessment purposes, an appraiser

is required to isolate only the value of the real property components—namely the land and improvements. An understanding of the economic relationship of all of the components to the entire property is essential to perform this task.

THE MARKET VALUE APPRAISAL

Because a hotel's assessment always bears at least a theoretical relationship to the effective equivalent of its market value, establishing an estimate of market value is critical. In *The Appraisal of Real Estate*, ninth edition, market value is defined as:

The most probable price, as of a specified date, in cash, or in terms equivalent to cash, or in other precisely revealed terms, for which the specified property rights should sell after reasonable exposure in a competitive market under all conditions requisite to a fair sale, with the buyer and seller each acting prudently, knowledgeably and for self-interest, and assuming that neither is under undue duress.²

Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

1. Buyer and seller are motivated by self-interest;
2. Buyer and seller are well informed or well advised, and each is acting prudently;
3. The property is exposed for a reasonable time in the open market;
4. Payment is made in cash, its equivalent, or in specified financing terms;
5. Specified financing, if any, may be the financing actually

2. American Inst. of Real Estate Appraisers, *The Appraisal of Real Estate*, 9th ed. (Chicago: American Inst. of Real Estate Appraisers, 1967), 19.

in place or on terms generally available for the property type in its locale on the effective appraisal date;

6. The effect, if any, on the amount of market value of atypical financing, services, or fees shall be revealed clearly and precisely in the appraisal report.³

Two other often-quoted definitions of market value include:

The highest price in terms of money which a property will bring if exposed for sale in the open market, allowing a reasonable time to find a purchaser who buys with knowledge of all the uses to which it is adapted and for which it is capable of being used.⁴

The price at which a willing seller would sell and a willing buyer would buy, neither being under abnormal pressure.⁵

In appraising real estate for market value, professional appraisers incorporate three approaches: the cost, sales comparison, and income capitalization approaches. Although all three valuation procedures are generally given consideration, the inherent strengths of each approach as well as the nature of the subject property must be evaluated to determine which will provide supportable estimates of market value.

THE COST APPROACH

In the cost approach, market value is estimated by computing the current cost of replacing a property and subtracting any accrued depreciation resulting from one or more of

the following factors: physical deterioration, functional obsolescence, and external (or economic) obsolescence. The value of the land as if vacant and available is then added to the depreciated value of the improvements to produce a total value estimate.

The cost approach may provide a reliable estimate of value for newly constructed properties; however, as buildings and other forms of improvements age and begin to deteriorate the resultant loss in value becomes increasingly difficult to quantify accurately. Moreover, because furniture and equipment depreciate faster than a hotel's physical plant, separate estimates of physical depreciation, functional obsolescence, and economic obsolescence would be required for the personality and realty components. This further complicates the cost approach when it is applied to a valuation for property tax purposes, which requires that only a hotel's real estate component be considered.

Knowledgeable buyers of lodging facilities generally base their purchase decisions on economic factors such as forecasted net income and return on investment. Because the cost approach does not reflect any of these income-related considerations but does require a number of highly subjective and unsubstantiable depreciation estimates, this approach is usually given minimal weight in the hotel valuation process. It is even less applicable than the norm when only a hotel's real estate component is being valued.

3. American Inst. of Real Estate Appraisers, *The Appraisal of Real Estate*, 8th ed. (Chicago: American Inst. of Real Estate Appraisers, 1983), 23.

4. American Inst. of Real Estate Appraisers, *Appraisal Terminology Handbook*, 5th ed. (Chicago: American Inst. of Real Estate Appraisers, 1967), 131.

5. *Ibid.*

For estimation of the market value of a hotel's real property components for tax assessment purposes, the sales comparison approach is particularly inappropriate.

THE SALES COMPARISON APPROACH

The sales comparison approach estimates the value of a property by comparing it to similar properties recently sold on the open market. To obtain a supportable estimate of value, the sale prices of comparable properties must be adjusted to reflect any dissimilarities between the comparables and the subject property.

The sales comparison approach may provide a useful value estimate for simple forms of real estate, such as vacant land and single-family homes, when the properties are homogeneous and the adjustments are few and relatively simple to compute. In the case of more complex investments such as shopping centers, office buildings, restaurants, and lodging facilities, however, when the adjustments are numerous and more difficult to quantify, the sales comparison approach loses much of its reliability.

Unlike office buildings and retail shopping malls, most hotels are essentially dissimilar from one another in the type of hotel operation, the quality and condition of physical improvements, the locational attributes, and the characteristics of the local hotel market's supply and demand. Numerous adjustments thus are required to render a sale comparable to a subject property. Such adjustments, however, are typically unsubstantiable from the market and difficult to estimate.

Several other circumstances can lessen the comparability of hotel sale data. For example, the sale of a hotel property may include an assumption by the purchaser of existing financing at nonmarket terms; a note may be taken back by a seller under duress; cash flow, equity, or debt service guarantees may exist; a partial interest in a property rather than an entire fee-simple interest

may be transferred; a leasehold or leased fee interest in a property subject to a nonmarket lease may be sold; and a property may be transferred as part of a package of several other properties in which the sale price of the particular comparable property may be merely an allocation of the whole.

Obtaining specific information on which to base adjustments for any of the previously cited differences can be extremely difficult. Even if information is available, attempts to derive market-supportable adjustments are, in general, merely speculative.

Hotel investors typically do not employ the sales comparison approach in reaching their final purchase decisions. Various factors, such as the lack of timely comparable hotel sale data, the numerous unsupportable adjustments that are necessary, and the general inability to determine the true financial terms and human motivations of comparable transactions often make the results of the sales comparison approach questionable. Although the sales comparison approach may provide a range of values to bracket and support the final estimate of value, any reliance beyond the establishment of broad parameters generally is not normally justified by the quality of data.

The market-derived capitalization rates sometimes used by appraisers are susceptible to the same shortcomings inherent in the sales comparison approach. To substantially reduce the reliability of the income capitalization approach by employing capitalization rates obtained from unsupported market data not only weakens the final estimate of value, it also fails to consider the typical investment analysis procedures employed by hotel purchasers. Because appraisers are obligated to mirror the actions of the marketplace, an appraiser

should generally give the sales comparison approach minimal weight in the hotel appraisal process beyond bracketing the final estimate of value.

For estimation of the market value of a hotel's real property components for tax assessment purposes, the sales comparison approach is particularly inappropriate. Typical hotel investors purchase hotels in anticipation of income from the real property, personal property, and business or going-concern components. Most sales of hotels include the transfer of both the realty and nonrealty components, and the per-room price of even the most comparable sale is difficult to use as an indication of value for another hotel's isolated real property component.

For example, hotels routinely sell with personal property in place; thus the sale price for a typical hotel includes such relatively short-lived assets as furniture, fixtures, and equipment (FF&B), and an allocation must be made to the comparable sale prices in order to adjust for the personalty's inclusion. However, a good source of market data appropriate for use as a basis from which to derive such an adjustment does not exist. The same is true of a business housed within a typical hotel. Hotels routinely transfer as going concerns, with buyers buying into the hotel business that is operated on the premises and anticipating income from the continued operation of the hotel business. Yet this element of a hotel's value is, like the personal property, explicitly excluded from consideration when only the hotel's real property elements are considered. Another unsupportable adjustment to the comparable sale price thus would be required to account for the portion of the price that was paid for the going concern. As is the case for a hotel's personal property elements, vir-

tually no market data exist that could be used as a basis from which to derive an appropriate adjustment.

THE INCOME CAPITALIZATION APPROACH

The income capitalization approach takes a property's forecasted net income before debt service and allocates these future benefits to the mortgage and equity components based on market rates of return and loan-to-value ratios. Through a discounted cash flow (DCF) analysis or other income capitalization procedure, the value of each component is calculated. The total of the mortgage component and the equity component equals the value of the property. This approach is often selected as the preferred valuation method for income-producing properties because it most closely reflects the investment thinking of knowledgeable buyers.

The authors' worldwide experience with a wide variety of hospitality buyers and sellers indicates that the procedures used in estimating market value by the income capitalization approach are comparable to those employed by the hotel and motel investors who actually constitute the marketplace. The income capitalization approach therefore produces the most supportable value estimate and is generally given the greatest weight in the hotel valuation process.

Further, the income capitalization approach is even more appropriate when a hotel's real estate component must be considered independent of its nonrealty elements. A stabilized statement of income and expenses allows for market-supported deductions for income attributed to personal property as well as income attributed to the going concern.

A stabilized income and expense

statement is intended to reflect the anticipated operating results of a property over its remaining economic life, considering any or all applicable stages of build-up, plateau, and decline in the life cycle of a hotel. A typical hotel will experience a slowly rising level of occupancy in the first two to four years of operation, a stabilized level of income sometime between the second and fifth year of operation, a higher than stabilized income for several years, and a gradual decline in income for the remainder of its economic life as a result of physical depreciation or functional and external obsolescence. Thus, income and expense estimates from the stabilized year forward exclude from consideration any abnormal relationship between supply and demand, and also exclude any transitory or nonrecurring conditions that may result in unusual revenues or expenses.

A stabilized statement of income and expense should be based on the assumption that the property is competently marketed and managed. Because the quality of management plays an integral role in the profit potential of a lodging facility, an appraiser must equalize the effects of varying managerial expertise. An appraiser can use an existing hotel's historical statement of income and expense for either the year prior to or subsequent to the date of value, as long as the historic net income can be considered to represent a competently operated, stabilized operating level.

For the sake of simplicity, a one-year forecast and capitalization process is used to estimate an income capitalization value rather than a multiyear DCF analysis. Theoretically, if a property has already achieved a stabilized position at the beginning of a forecast, the direct capitalization and DCF methods will result in equal val-

ues. If, however, a hotel property has not yet reached a stabilized level, capitalizing one stabilized year of net income would result in a higher value than a DCF analysis, because no consideration would be given to less than optimal cash flows, which a property would typically experience prior to stabilization. Both direct capitalization of one stabilized year and multiyear DCF analyses are used by investors who purchase and sell hotel properties.

VALUATION OF A SUBJECT HOTEL FOR ASSESSMENT PURPOSES

The subject hotel is a 300-room, downtown facility operated by a first-tier management company that provides, in addition to operational expertise, a brand name and a supporting reservation system. The property is four years old, well maintained, and has reached its stabilized level of operation. In relation to the number of guestrooms, the property contains an adequate amount of food and beverage facilities and meeting space. Recreational facilities include an indoor/outdoor swimming pool, a sauna and jacuzzi, and an exercise room, all of which are free to hotel guests. The hotel derives some income from these facilities through the sale of outside memberships. The property also contains a gift shop that is leased to an outside operator.

In the subject property's tax jurisdiction, real estate taxes are levied and payable on a calendar year basis. January 1 is the effective date of value for any given tax year. The appropriate date of value to use when appealing the property's 1990 taxes thus is January 1, 1990. The statement of stabilized net income before property taxes shown in Table 1 represents income attributable to the land, improvements,

TABLE 1 300-Room Subject Property
Stabilized Statement of Income and Expense

Year:	Stabilized (1990)	
Total rooms:	300	
Occupied rooms:	82,125	
Occupancy:	75.0%	
Average rate:	\$90.00	
REVENUES	Total \$	% Gross
Rooms	\$ 7,391,000	55.8%
Food	\$ 4,065,000	30.7%
Beverage	\$ 1,423,000	10.7%
Telephone	\$ 259,000	2.0%
Other income (net)	\$ 111,000	0.8%
Total revenue	\$13,249,000	100.0%
DEPARTMENTAL EXPENSES*		
Rooms	\$ 1,848,000	25.0%
Food & beverage	\$ 4,500,000	82.0%
Telephone	\$ 233,000	90.0%
Total departmental expenses	\$ 6,581,000	49.7%
Departmental income	\$ 6,668,000	50.3%
UNDISTRIBUTED OPERATING EXPENSES		
Administrative & general	\$ 1,192,000	9.0%
Marketing	\$ 729,000	5.5%
Property operations & maintenance	\$ 596,000	4.5%
Energy	\$ 464,000	3.5%
Total undistributed operating expenses	\$ 2,981,000	22.5%
Income before fixed charges	\$ 3,687,000	27.8%
FIXED CHARGES		
Insurance	\$ 60,000	0.5%
Total fixed charges	\$ 60,000	0.5%
Net income before management fee, reserve for replacement, and property taxes	\$ 3,627,000	27.3%

*Ratios for departmental expenses are expressed as percentages of departmental revenues.

business or going concern, and personal property.

BUSINESS VALUE AND PERSONAL PROPERTY ADJUSTMENTS

As previously noted, in the real estate appraisal industry, the market value of a hotel is considered to consist of four components:

1. Value of the land
2. Value of the improvements
3. Value of the business or going concern and franchise affiliation
4. Value of the FF&E (i.e., personal property)

The total of these four components equates to the market value of the hotel as a whole. For property tax purposes, for which the value of the real estate alone must be considered, a deduction has to be made for the value of the business (i.e., going concern) and the value of the personal property.

VALUE OF THE BUSINESS

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. Further, in addition to the sale of guestrooms lodging facilities typically derive income from several sources including the sale of food, beverages, and telephone service, which require additional business and management expertise.

The business value of a hotel is also composed of the benefits that accrue from an affiliation with a brand-name hotel company through either a franchise agreement or a management contract. Typically, chain-affiliated lodging facilities outperform independent properties, and the added value created by increased profits is purely attributable to the affiliation rather than to any real property interests.

Hotel companies that provide management services can generally be classified into two categories: first tier or second tier. First-tier companies such as Holiday Inn, Hilton, Sheraton, 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 Larken and Interstate Hotel Corporation 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 Hyatt and Westin generally offer their brand names, corporate identities, and reservation systems solely in conjunction with their management expertise. Hotel companies

such as Choice Hotels (which include the Clarion, Quality, and Comfort Inn affiliations) and Hospitality Franchise Systems (which include the Howard Johnson and Ramada 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 fee.

The process of isolating the value of a hotel's business is based on the premise that by employing a professional management agent to handle the day-to-day operation of the property, an owner maintains only a passive interest, while the income attributed to the business has been taken by the managing agent in the form of a management fee. Therefore, deduction of a management fee from the stabilized net income removes a portion of the business component from the stabilized income stream. Additional business value is derived from the benefits of identification with a widely recognized brand name.

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). 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.

Based on our experience in hiring management agents and reviewing management contracts, typical base management fees average 2% to 5% of gross revenues. Typical incentive management fees range more widely, however, from 10% to 25% of different levels of net income. 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.

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 franchisor'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% to 6.5%. Advertising and marketing fees, which are typically based on a percentage of rooms revenue, may range from 1% to 3%. Reservation fees can be charged one of three ways: a per-

centage of rooms revenue typically ranging from 1% to 2.5%; 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% to 9% and can go as high as 10% 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, it is generally appropriate to use 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, the appropriate fees should be considered under a franchise agreement 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 are reflected in the stabilized year forecast of income and expenses should be considered.

Table 2 illustrates the income attributed to the business or going concern for the subject property under two scenarios: 1) assuming a first-tier hotel management company, and 2) assuming a second-

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% to 9% and can go as high as 10% of rooms revenue.

TABLE 2 Subject Hotel—Derivation of Income Attributable to the Business or Going Concern

Scenario 1*				
Stabilized Gross Revenue		First-Tier Hotel Management Company Base Management Fee		Income Attributable to the Business or Going Concern
\$13,249,000	X	3.0%	=	\$397,470
Income Before Fixed Charges and After Base Management Fee**		Incentive Management Fee		
\$3,290,000	X	10.0%	=	\$329,000
			Total (rounded)	\$726,470
				\$726,000
Scenario 2				
Stabilized Gross Revenue		Second-Tier Hotel Management Company Management Fee		Income Attributable to the Business or Going Concern
\$13,249,000	X	3.0%	=	\$397,470
Stabilized Rooms Revenue		Franchise Fee		
\$7,391,000	X	4.5%	=	\$332,595
			Total (rounded)	\$730,065
				\$730,000

*The calculations under both scenarios fall within a narrow range. For illustrative purposes the case study will continue using scenario one.

**Equals $3,687,000 - 397,470 = \$3,289,530$, rounded to $\$3,290,000$.

tier hotel company with a brand name franchise affiliation. In scenario 1, a first-tier management fee consisting of 3% of gross revenues (the base fee) plus 10% of net income before fixed charges but after the base management fee has been deducted (the incentive management fee) is deemed appropriate. It is recommended, however, that the terms of the management contract that actually encumber a specific hotel be reflected to as great an extent as possible in its valuation for property tax purposes, as long as the existing management contract is either at market terms or is freely transferable to any new ownership entity, and as long as it is reasonable to assume that a typical investor in the property would accede to the existing management contract terms. Depending on the terms of the management contract actually in place at a particular hotel, a deduction for both base and

incentive management fees or franchise fees, possibly both, may or may not be appropriate.

In the authors' experience with hotel property tax appeals, assessors appear to have a certain amount of initial confusion and resistance to the notion that a hotel includes certain elements that represent a going concern, as opposed to being simply real estate. One of the best analogies is that of a retail mall. In valuing the fee simple ownership (i.e., the simplest, most absolute form of ownership) in a retail mall through the income capitalization approach, appraisers and assessors know that the revenue streams to the mall's ownership take the form of rental payments made by the tenants in the mall. The rent payable by any particular tenant is typically not equal to the tenant's income, but is rather only a part of the tenant's income. Assume, for example, that the operator of a ci-

gar store leases retail space from the mall's ownership at an annual rental of 10% of gross revenues. Assume further that this particular tenant can drop 20% to the bottom line before rent. In this particular case, the tenant's rental payment would equal half of the bottom line; the remaining half (10%) goes directly into his or her pocket as business income. For the purpose of calculating rental revenue to the owners of the mall, it makes sense that only the portion of the tenant's bottom line that is payable in rent is considered.

What some assessors fail to recognize is that for hotels, the effective equivalent of a tenant is a management company. Years ago, in fact, management contracts like the ones that are commonly found in the current marketplace did not exist. Rather, total property leases were used. A common rental formula called for 25% of rooms revenue, 10% of beverage revenue, and 5% of food revenue. If total property leases were still the norm, identifying the income stream to the hotel's real estate component would not be difficult; it would be calculated as the rental payments required to be paid by the tenant/operator to property ownership. The common use of management contracts, however, has resulted in confusion as to how much of a hotel's income stream represents the tenant's income (i.e., income attributable to the business or going concern) and how much represents the income to property ownership (i.e., the income attributable to the real estate). By failing to deduct all amounts payable to the management company (and franchisor) from the hotel's income stream, assessors routinely value hotel properties based on income attributable to the realty and nonrealty elements. Appropriate deductions from a typical hotel's income stream to account for income attributable

to the going concern include base and incentive management fees, franchise fees, reservation fees, and advertising royalties. If any of these items are permitted to remain in the income stream capitalized into an estimate of the property's market value, then that value includes nontaxable elements. If this value is then used as the basis for the property's assessment, the property is probably overassessed.

VALUE OF THE PERSONAL PROPERTY

Both a return on and of a hotel's personal property must be considered to deduct net income attributable to the furniture and equipment. These amounts can be identified the same way in both scenarios.

The return of personal property is based on the fact that furniture and equipment are essential to the operation of a lodging facility and their quality often influences the class of a property. Included in this category are all non-real estate items that are typically capitalized rather than expensed. The FF&E are exposed to heavy use and must be replaced at regular intervals. The useful lives of these items are determined by their quality, durability, and the amount of guest traffic and use. Periodic replacement of FF&E is essential to maintain the quality, image, and income potential of a lodging facility. Because capitalized expenditures are not included in the operating statement but nevertheless affect an owner's cash flow, an appraisal should reflect these expenses in the form of an appropriate reserve for replacement.

Most hotel management agents account for the frequent replacement of FF&E by establishing a reserve for replacement fund, typically funded from a hotel's cash flow. In theory, a sufficient amount

of money is available in the fund to replace FF&E at the end of its useful life. Industry experience indicates that a reserve for replacement of 3% to 5% of total revenue generally is sufficient to provide for the timely replacement of FF&E. The deduction of a reserve for replacement from the stabilized statement of income and expense can therefore be used to account for the return of personal property.

The following calculation illustrates the return of personal property for the subject hotel:

Subject Hotel—Derivation of Return of Personal Property

Stabilized Gross Revenue	Reserve for Replacement Percentage	Stabilized Return of Personal Property
\$13,249,000 x	3.0%	= \$397,470

The return on personal property is based on the theory that a certain cost of capital is associated with the ownership of personal property. If chattel mortgages on hotel FF&E were available in the marketplace, they would provide an indication of the economic return required on personal property. Because chattel mortgages are not common, and a lodging facility's FF&E is typically financed as part of the entire property, interest rates on hotel mortgages establish a minimum required rate of return. Using the overall rate (which will be derived later in this article) establishes a maximum rate of return.

As the tax rate for personal property is the same as for the real estate components of the subject property, and as the personal property taxes have not been deducted from the stabilized statement of income and expenses, the applicable tax rate is added or "loaded" to the

required rate of return on personal property to derive a total personal property return rate.

Subject Hotel—Derivation of Return on Personal Property

Overall capitalization rate	11.0%
Tax rate per \$100 of assessed valuation	1.0%
Rate of return on personal property	12.0%
Assessed value of the subject hotel's personal property	\$1,800,000
Return on personal property	\$ 216,000

In this example, the assessed value of the personal property is the basis from which the return on personal property is derived. Because the personal property assessment is routinely performed by parties related to the real property assessor, the use of this assessment is typically acceptable to both sides in an assessment appeal.⁶ Personal property is not assessed everywhere; in jurisdictions that do not tax or assess personal property, the depreciated book value of the personal property can be used as a basis from which to derive the return on personal property calculation. Because of the rapidity with which these short-lived items are depreciated, the depreciated book value can be considered a "floor" on the value of the personal property; its use in the return on personal property calculation thus results in the most conservative (i.e., lowest) estimate possible for a return on personal property, giving any benefit of the doubt to the value of the hotel's real estate component.

The total deduction of income attributed to the personal property is the sum of the return on and the return of personal property.

6. If the personal property assessment is equalized, the full value indicated by the assessment divided by the equalization ratio should be used.

Subject Hotel—Derivation of Income Attributable to Personal Property

Return of personal property	\$394,470
Return on personal property	\$216,000
Income attributable to the personal property	\$610,470
Rounded	\$610,000

INCOME ATTRIBUTED TO THE REAL ESTATE

To calculate the income attributed to the real estate, the income attributed to the business and personal property are deducted from the stabilized net income before real estate taxes. It should be noted that because the authors' estimates of income attributable to the going concern were so close to each other under the two scenarios, the final conclusions will be illustrated for the first scenario only because the differences are negligible.

Subject Hotel—Derivation of Income Attributable to Real Property

Stabilized net income before management fee, property taxes, and reserve for replacement	\$3,627,000
Less: Income attributable to business or going concern	\$ 726,000
personal property	\$ 610,000
Stabilized net income attributable to the real estate before real estate taxes	\$2,291,000

INCOME CAPITALIZATION

The income capitalization approach is based on the principle that the value of a property is indicated by the net return to the property, or what is also known as the present worth of future benefits. The future benefit of income-producing properties such as hotels and motels is net income before debt ser-

vice and depreciation. For property tax appraisals in which one stabilized year is considered, it is appropriate to derive an overall capitalization rate. Typically, lodging facilities are appraised by use of a mortgage equity analysis, which reflects that investors typically purchase real estate with a relatively small amount of equity cash (20% to 40%) and a larger amount of mortgage financing (60% to 80%). This technique gives weight to the amount and terms of available mortgage financing and what rates of return are required to attract sufficient equity capital.

MORTGAGE COMPONENT

Data for the mortgage component may be developed from statistics of actual hotel mortgages made by long-term permanent lenders. The American Council of Life Insurance, which represents 20 large life insurance companies, publishes quarterly information on the hotel mortgages issued by their member companies. The following table summarizes the average mortgage interest rates of the hotel loans made by these lenders for two years before and one year after the January 1, 1990, date of value.

**American Council of Life Insurance
Typical Hotel and Motel Mortgages**

Year	Fixed Term/ Fixed Rate Average Interest Rate	Total Average Interest Rate
1988	n.a.	10.17%
1989	9.93%	9.81%
1990	10.53%	10.28%

Based on the preceding analysis of the lodging industry mortgage market, and adjusting for specific factors individual to this property's location and local hospitality market conditions, a 10% interest, 30-year mortgage with 12 annual payments and a resulting 0.105309 constant

is considered appropriate for the subject property as of January 1, 1990. As of this date, the authors determined that a mortgage lender would lend up to 65% of the hotel's market value.

EQUITY COMPONENT

The remaining capital required for a hotel investment generally comes from the equity investor. The rate of return that an equity investor expects based on a one-stabilized-year analysis is commonly known as the equity dividend, or cash-on-cash return. As of the date of value for the subject property, equity investors in lodging facilities of the subject property's type were generally seeking cash-on-cash returns of between 10% and 15%. When an equity dividend rate is used, the cash benefits from operation of the property that are derived by the equity position are explicitly considered. Implicitly considered in the cash-on-cash return is the anticipated receipt of all future benefits that accrue to the equity position. These include tax shelter, increasing annual dividends resulting from inflation, and equity buildup caused by property appreciation and amortization of debt over a period of time.

The subject's age and market position as of the date of value cause it to represent an average eq-

uity risk, and a 12% cash-on-cash return is considered appropriate.

The capitalization rate is computed as the weighted average of the returns required by the mortgage and equity funds.

This capitalization rate is used for valuing stabilized net income after real estate taxes. The overall capitalization rate is loaded with the 1990 property tax rate (per \$100 of value), rendering an adjusted overall capitalization rate applicable for stabilized net income before real estate taxes.

Subject Hotel—Derivation of Adjusted Overall Capitalization Rate	
Overall capitalization rate	.110
Real estate tax rate (per \$100)	.010
Loaded overall capitalization rate	12.0%

To apply the capitalization rate to the stabilized net income attributed to the real estate, the stabilized net income before real estate taxes is divided by the adjusted before-tax overall capitalization rate as illustrated below. This calculation is accomplished identically in both scenario 1 (i.e., name-brand management company) and scenario 2 (i.e., second-tier management company with national franchise).

The market value of the real property can be proven by deducting the projected real estate taxes

Subject Hotel (scenario 1)—Derivation of Property Tax Valuation			
Stabilized Net Income	=	\$2,291,000	= \$19,092,000
Adjusted overall capitalization rate		.120	(rounded)

Subject Hotel—Derivation of Overall Capitalization Rate				
	Loan-to-Value		Return Requirement	
Mortgage	0.65	×	.105309	= .06845
Equity	0.35	×	.120000	= .04200
			Overall capitalization rate	.11035
			Approximately	.11000

from the stabilized net income before taxes, and capitalizing the resultant amount by the unadjusted after-tax capitalization rate as illustrated.

Subject Hotel (scenario 1)—Proof of Value	
Indicated market value @ 1/1/90	\$19,092,000*
1990 tax rate	.010
1990 real estate taxes	\$ 190,920
Stabilized (1990) net income attributable to real estate before real estate taxes	\$ 2,291,000
Less: 1990 real estate taxes	\$ 190,920
Stabilized net income after real estate taxes	\$ 2,100,080
Overall capitalization rate	.11
Indicated market value @ 1/1/90	\$19,092,000*
*rounded	

Once a hotel's market value is known, the appropriate assessment for the property is generally easy to calculate. When the assessment is a specified ratio of market value (assessment ratio), this ratio is simply applied to (multiplied by) the indicated market value. In some instances, the equalization ratio must then be applied to the assessment, and this can be accomplished by another, simple multiplication calculation. If the assessment is theoretically at full market value, no subsequent calculation need be performed.

HOW TO DETERMINE WHETHER A HOTEL IS OVERASSESSED

There are any number of factors individual to each tax jurisdiction that can make this determination

complicated. Ultimately, the best way to determine whether a property is overassessed is to perform the analysis previously outlined. There are two relatively simple tests that anyone can perform with a little legwork, however, that should result in at least a preliminary indication of whether a hotel property is overassessed and whether a viable case exists to contest an assessment.

The first test is to compare a hotel's assessment to that of other, similar properties in the tax jurisdiction.⁷ To accomplish this, it is necessary to actually go to the assessor's office (where the tax rolls are kept) and look up the assessments of every other hotel in the subject tax jurisdiction. Assessments are generally broken down into at least two categories: land and building (improvements). Because any two hotels in the jurisdiction may be on different-sized sites and the value of the land underlying any two hotels may be widely disparate depending on a site's size and location, it is generally unfruitful to compare assessed values for the land. By determining the assessment applicable to each comparable hotel's improvements, however, and by expressing this assessment on a per-room value, a viable unit of comparison can be derived.

If differences between a subject's per-room improvements assessment and those of other hotels in the jurisdiction are not evident because of perceivable differences in the properties, the subject's assessment may be unfair.⁸ Suppose, for example, that the subject hotel is a 20-year-old, nationally franchised, full-service property in a tax jurisdiction in which most of the other existing hotels have been

7. This test may not be appropriate for properties located in California because of the nature of that state's Proposition 13.

8. Ibid.

A second test of the reasonableness of a hotel assessment involves deriving an approximate capitalization rate suggested by the assessor's estimate of market value.

built in the past five years. Suppose further that the new properties also have nationally recognized brand names and also are full-service properties. If the market value on which the subject improvements assessment is based (i.e., the assessed value of the improvements divided by any applicable assessment ratio or equalization ratio) equates to \$50,000 per room, and the market values on which the improvements assessments of the newer properties are based range from \$10,000 to \$25,000 per room, the subject assessment may be inequitable. Unless there is an explanation for the disparity, the makings of a strong property tax case may be evident. In performing this test it is important to compare the assessor's market values of the properties (the values on which the assessment is based) and not just the assessments.

A second test of the reasonableness of a hotel assessment involves deriving an approximate capitalization rate suggested by the assessor's estimate of market value. To accomplish this test, it must be possible to estimate the appropriate level of net income for the appropriate year. In many cases, the year immediately following or the year prior to the assessor's date of value can be used as long as the net income can be considered to represent a stabilized level of operation under competent management. If a subject property is old enough to have reached a mature, stabilized position in the marketplace, actual income statements can be used. If the subject property has not reached its stabilized level of operation or if the property is being mismanaged (i.e., if expense ratios are materially higher than industry norms for no reason inherent to the property itself), an estimated income stream can be developed for the indicated year as

if the property were stabilized or competently managed.

The income stream should include as expense deductions economic base management fees. If appropriate, incentive management fees, a reserve for replacement, and all other operating costs, including franchise fees, reservation fees, franchise royalties, and advertising fees should also be included. As was illustrated by the previous example, expenses that would not be deducted include noncash expenses such as depreciation and amortization, expenses particular to the specific ownership entity such as partnership fees or interest expenses, and nonoperating expenses. In addition, a deduction for the return on personal property, the calculation of which has been illustrated, can be included.

Once a stabilized net income is approximated in this manner, it should be divided by the market value on which the subject property assessment is based. The resulting ratio can be thought of as an approximated capitalization rate: the relationship between net income and the assessor's opinion of market value. If this ratio is greater than 15%, the subject property may be underassessed and the property owner may not want to pursue the potential case. If this ratio is less than 8%, however, the subject assessment may be high relative to the hotel's income-producing capacity, and the basis for a strong property tax case may exist.

As a warning, it is inadvisable to use the ratio of the property tax expense to the hotel's total revenues to determine whether the property taxes are too high. For this one item (i.e., the percentage of property taxes to total gross), industry averages are meaningless. In some tax jurisdictions, property taxes may as the norm fall between

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12% and 15% of total gross; in other jurisdictions, 2% to 4% may be the norm. Because of the many differences between one tax jurisdiction and another, property taxes simply cannot be compared, on a nationwide basis, as a percentage of gross revenue.

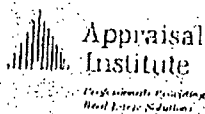
CONCLUSION

Because the nature of a typical hotel, as an entity, is unique among the various traditional forms of real estate, a hotel's valuation for property tax purposes represents a challenge. Of the four components that create a hotel's revenue-generating capacity, both the personal property and the going concern must be specifically excluded from consideration.

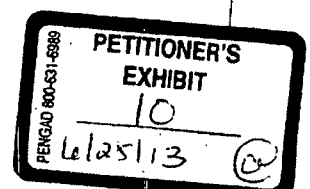
In any valuation for real estate tax assessment purposes, an appraiser must consider the three approaches to value: cost, sales comparison, and income capitalization. Because a lodging facility is an income-producing entity typically bought and sold on the basis of its

ability to produce operating profits to an investor, however, the most appropriate procedure for estimating market value is the income capitalization approach. This approach involves the capitalization of a stabilized net income stream of a property based on an assumed mortgage interest amortization and equity return. To accurately estimate a real property value for assessment purposes, appropriate deductions are made for income attributed to the business or going concern and income attributed to the personal property. Because virtually all hotel owners use an income capitalization procedure in formulating investment decisions, this approach closely mirrors the actions of those in the marketplace and is most appropriate for estimating the market value of a lodging facility for property tax purposes. This approach is also the only one of the three approaches to value that inherently contains a technology for separating the incomes attributable to a hotel's non-realty components.

Hotels Motels & *Valuations and Market Studies*



by Stephen Rushmore, MAI, and Erich Baum



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1. The cost approach
2. The sales comparison approach
3. The income capitalization approach

Cost Approach

The cost approach is based on the assumption that an informed purchaser will pay no more for a property than the cost of producing a substitute property with equal utility. When the cost approach is applied, an opinion of market value is developed by calculating the current cost of replacing the subject improvements and subtracting an appropriate amount for depreciation.

The cost of replacing a property is estimated on a square-foot basis using figures from a construction cost manual published by a recognized cost reporting service. The value of the land as if vacant and available for development is then added to the depreciated replacement cost estimate to yield the estimate of value.

Depreciation is defined as a loss in value caused by one or more of the following factors:

- Physical deterioration—the physical wearing out of the property
- Functional obsolescence—a lack of desirability in the layout, style, and design of the property as compared to a new property serving the same function
- External obsolescence—a loss in value from causes outside the property itself

Appraisal literature recommends using the cost approach for new properties, which have not been affected by the various forms of depreciation, and for unique or specialized improvements such as schools and libraries that have no comparable market or income potential.

The cost approach is seldom used to value existing hotels and motels because lodging facilities are particularly vulnerable to physical deterioration, functional changes, and uncontrollable external factors. Sometimes a hotel can suffer from functional and external obsolescence before its construction is completed. As the building and other improvements age and depreciate, the resulting loss in value becomes difficult to quantify. Estimating the impact of even minor forms of obsolescence may require unsubstantiated judgments that undermine the credibility of the cost approach.

The cost approach is not applied to hotels and motels because its underlying assumptions do not reflect the investment rationale of typical hostelry buyers. Lodging facilities are income-producing properties that are purchased to realize future profits. Replacement or reproduction cost has little bearing on an investment decision when the buyer is primarily concerned with the potential return on equity.

The cost approach can be useful, however, in determining the feasibility of a proposed hotel. When applied in conjunction with the income capitalization approach, the cost approach can verify a project's economic feasibility. If the value obtained by applying the income capitalization approach is equal to or greater than the replacement cost plus the land value, the project is usually considered economically feasible. If, however, the value estimated by the income capitalization approach is less than the value derived by the cost approach, the investors should scrap the project, reduce capital costs, or lower their desired return. Moreover, if this is the case, an additional equity investment may be needed to secure sufficient financing. The data used to estimate the replacement cost of property improvements should come from a qualified source such as an experienced contractor, architect, or engineer, or from a construction cost manual. Land value is established by analyzing sales of comparable parcels or by capitalizing the ground rental.

Table 6.1 shows ranges of typical replacement costs, land values, and soft costs for luxury, standard, and economy accommodations for 1985 through 1999.

Estimating Hotel Land Values

Hotel appraisers are sometimes asked to estimate the value of a total property and then calculate a separate land value. To calculate land value the appraiser investigates the market to find recent transfers of vacant parcels with similar acreage, street frontage, location, and zoning. Any differences between the comparable property and the subject are then adjusted on a grid. In practice, this process can be difficult due to the lack of sufficiently comparable vacant land sales data and the complexity of estimating the necessary adjustments. An alternative approach is the comparable ground lease method, based on the premise that the value of land is tied directly to its capacity to generate income at its highest and best use.

Each year a number of hotel transactions are structured using ground leases. Typical rental terms vary from simple flat payments with escalation adjustments to formulae based entirely on gross revenues. To quantify the income attributed to the land alone, the net rental using a percentage of gross revenue is the logical choice.

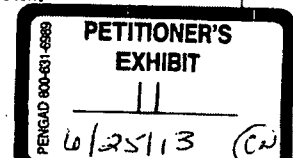
Hotel Market Analysis and Valuation

International Issues and Software Applications

by Stephen Rushmore, MAI, John W. O'Neill, MAI, PhD, and
Stephen Rushmore, Jr.

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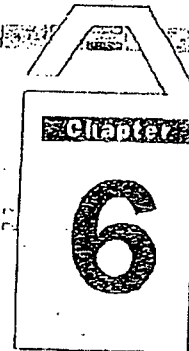
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Market Value and the Valuation Process



This chapter will illustrate how an appraiser or analyst can convert the data, information, and output from the previous chapters into an estimate of a hotel's market value. Hotels are income-producing, investment properties that are periodically bought, sold, financed, refinanced, condemned, assessed, and bequeathed. All of these activities usually require a professional appraisal.

Definition of Market Value

A number of definitions of the term *market value* have been formed by the various authorities and entities involved in the practice of appraisal. The Appraisal Institute defines market value as:

The most probable price that the specified property interest should sell for in a competitive market after a reasonable exposure time, as of a specified date, in cash, or in terms equivalent to cash, under all conditions requisite to a fair sale, with the buyer and seller each acting prudently, knowledgeably, for self-interest, and assuming that neither is under duress.¹

The following definition is used by agencies that regulate federally insured financial institutions in the United States:

The most probable price that a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

- Buyer and seller are typically motivated;
- Both parties are well informed or well advised, and acting in what they consider their best interests;
- A reasonable time is allowed for exposure in the open market;
- Payment is made in terms of cash in US dollars or in terms of financial arrangements comparable thereto; and
- The price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale. (12 C.F.R. Part 34.42(g); 55 *Federal Register* 34696, August 24, 1990, as amended at 57 *Federal Register* 12202, April 9, 1992; 50 *Federal Register* 29499, June 7, 1994)²

1. *The Dictionary of Real Estate Appraisal*, 6th ed. (Chicago: Appraisal Institute, 2010), 122.
2. *Ibid.*, 122.

The market value of a lodging facility may include the value of its various components, which consist of land; improvements (building); furniture, fixtures, and equipment; inventories; working capital; and any business value. Market value is estimated by applying the valuation process, and the opinion of value is usually communicated in a written appraisal report.

In appraising the market value of real estate, the appraiser considers three approaches:

1. The cost approach, which is sometimes referred to as the "summation approach."
2. The sales comparison approach, which may also be called the "direct sales approach" or the "market data approach."
3. The income capitalization approach, which is sometimes referred to as the "income approach."

Cost Approach

The cost approach is based on the assumption that an informed purchaser will pay no more for a property than the cost of producing a substitute property with equal utility. When the cost approach is applied, market value is estimated by calculating the current cost of replacing the subject improvements and subtracting an appropriate amount for depreciation.

The cost of replacing a property is generally estimated on either a per-room or square-foot basis using figures from a construction cost manual published by a recognized cost reporting service. The value of the land as if vacant and available for development is then added to the depreciated replacement cost estimate to yield the estimate of value.

Depreciation is defined as a loss in value caused by one or more of the following factors:

- Physical deterioration—the physical wearing out of the property
- Functional obsolescence—a superadequacy or a lack of desirability in the layout, style, and design of the property as compared to a new property serving the same function
- External obsolescence—a loss in value from causes outside the property itself

Appraisal literature recommends using the cost approach for new properties, which have not been affected by the various forms of depreciation, and for unique or specialized improvements such as schools and libraries that have no comparable market or income potential.

The cost approach is seldom used to value existing hotels because lodging facilities are particularly vulnerable to physical deterioration, functional changes, and uncontrollable external factors. A hotel may suffer from functional and external obsolescence before its construction is completed. As the building and other improvements age and depreciate, the resultant loss in value becomes difficult to quantify. Estimating the impact of even minor forms of obsolescence may require insupportable judgments that undermine the credibility of the cost approach.

A more significant reason why this approach is not applied to hotels is that its underlying assumptions do not reflect the investment rationale of typical hospitality buyers. Lodging facilities are income-producing properties

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that are purchased to realize future profits. Replacement or reproduction cost has little bearing on an investment decision when the buyer is primarily concerned with the potential return on equity. Today's typical hotel investors are highly sophisticated and capable of applying the complicated market and financial analysis set forth in this text.

Looking at the use of the cost approach from a global perspective, it appears that the cost approach has been replaced by the income capitalization approach as the preferred method for valuing hotels in most regions of the world. This trend towards using the income capitalization approach seems to follow a certain pattern. For example, European appraisers seemed to prefer the cost approach for valuing hotels about 20 years ago. They considered these types of properties too complicated to analyze from an operational and financial perspective. As demonstrated by the previous five chapters of this book, utilizing the income capitalization approach for hotels requires specialized knowledge of hotel operations that many general appraisers do not possess. As a result, the easiest way for them to deal with hotel real estate was to simply apply the cost approach. Appraisers, particularly those with hotel school education or actual hotel operational experience, have learned hotel valuation methodology over time and can currently apply the proper financial analysis to utilize the income capitalization approach. In addition, sophisticated hotel companies, investors, and lenders have a more global perspective and have begun acquiring (or lending on) hotel properties around the world. These investors are looking to achieve an economic return on their investments, and the cost approach simply does not reflect the economic basis for pricing their acquisitions. They employ the income capitalization approach as set forth in this text. Appraisers in Europe currently use the income capitalization approach for their hotel appraisals. This same pattern of switching from the cost approach to the income capitalization approach occurred in India about 10 years ago.

Today, the only major country that has not fully adopted the income capitalization approach for valuing hotels is China. Many Chinese appraisers use the cost approach because they say that the income capitalization approach does not give them enough value. Based on the pattern observed in other parts of the world, the Chinese hotel investors and lenders will experience a downturn after the bubble bursts and realize that many of their hotels are not worth their replacement costs. At this point in time, the income capitalization approach should have many more supporters.

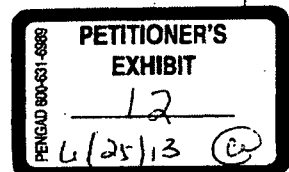
The cost approach can be useful in determining the feasibility of a proposed hotel. When applied in conjunction with the income capitalization approach, the cost approach can verify a project's economic feasibility. If the value obtained by applying the income capitalization approach is equal to or greater than the replacement cost plus the land value, the project is usually considered economically feasible. If, however, the value estimated by the income capitalization approach is less than the value derived by the cost approach, the investors should scrap the project, reduce capital costs, or lower their desired return. Moreover, if this is the case, an additional equity investment may be needed to secure sufficient financing. The data used to estimate the replacement cost of property improvements should come from a qualified source, such as a construction cost manual or an experienced hotel consultant, contractor, architect, or engineer. Land value is established by analyzing sales of comparable parcels or by capitalizing the ground rental.

Hotels and Motels: A Guide to Market Analysis, Investment Analysis, and Valuations

by Stephen Rushmore, MAI



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Market Value and the Valuation Process

Hotels and motels are income-producing, investment properties which are periodically bought, sold, financed, refinanced, condemned, assessed, and bequeathed. All of these activities usually require a professional appraisal to provide an estimate of the property's market value.

Market value is defined as follows:

The most probable price, as of a specified date, in cash, or in terms equivalent to cash, or in other precisely revealed terms, for which the specified property rights should sell after reasonable exposure in a competitive market under all conditions requisite to fair sale, with the buyer and seller each acting prudently, knowledgeably, and for self-interest, and assuming that neither is under undue duress.¹

The fundamental assumptions and conditions presumed in this definition are

1. Buyer and seller are typically motivated.
2. Both parties are well informed or well advised, and acting in what they consider their best interests.
3. A reasonable time is allowed for exposure in the open market.
4. Payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto.
5. The price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.

There are other definitions of market value, such as

The highest price in terms of money which a property will bring if exposed for sale in the open market, allowing a reasonable time to find a purchaser who buys with knowledge of all the uses to which it is adapted and for which it is capable of being used.²

The price at which a willing seller would sell and a willing buyer would buy, neither being under abnormal pressure.³

The market value of a lodging facility may include the value of the going concern, which consists of the business value; the value of all furniture, fixtures, and equipment; and sometimes inventories and working capital. Market value is estimated by applying the valuation process, and the opinion of value is usually communicated in a written appraisal report.

In appraising the market value of real estate, the appraiser considers three approaches:

1. The cost approach, which is sometimes referred to as the summation approach.

1. *The Appraisal of Real Estate*, 10th ed. (Chicago: Appraisal Institute, 1992), 20.

2. *Appraisal Terminology and Handbook*, 5th ed. (Chicago: American Institute of Real Estate Appraisers, 1967), p. 102.

2. The sales comparison approach, which may be called the direct sales or market data approach.
3. The income capitalization approach, which is sometimes referred to as the income approach.

Cost Approach

The cost approach is based on the assumption that an informed purchaser will pay no more for a property than the cost of producing a substitute property with equal utility. When the cost approach is applied, market value is estimated by calculating the current cost of replacing the subject improvements and subtracting an appropriate amount for depreciation.

The cost of replacing a property is generally estimated on a square-foot basis using figures from a construction cost manual published by a recognized cost reporting service. The value of the land as if vacant and available for development is then added to the depreciated replacement cost estimate to yield the estimate of value.

Depreciation is defined as a loss in value caused by one or more of the following factors:

- Physical deterioration—the physical wearing out of the property
- Functional obsolescence—a lack of desirability in the layout, style, and design of the property as compared to a new property serving the same function
- External obsolescence—a loss in value from causes outside the property itself

Appraisal literature recommends using the cost approach for new properties, which have not been affected by the various forms of depreciation, and for unique or specialized improvements such as schools and libraries that have no comparable market or income potential.

The cost approach is seldom used to value existing hotels and motels because lodging facilities are particularly vulnerable to physical deterioration, functional changes, and uncontrollable external factors. Sometimes a hotelery can suffer from functional and external obsolescence before its construction is completed. As the building and other improvements age and depreciate, the resultant loss in value becomes difficult to quantify. Estimating the impact of even minor forms of obsolescence may require insupportable judgments that undermine the credibility of the cost approach.

A more significant reason why this approach is not applied to hotels and motels is that its underlying assumptions do not reflect the investment rationale of typical hotelery buyers. Lodging facilities are income-producing properties that are purchased to realize future profits. Replacement or reproduction cost has little bearing on an investment decision when the buyer is primarily concerned with the potential return on equity.

The cost approach can be useful, however, in determining the feasibility of a proposed hotelery. When applied in conjunction with the income capitalization approach, the cost approach can verify a project's economic feasibility. If the value obtained by applying the income capitalization approach is equal to or greater than the replacement cost plus the land value, the project is usually considered economically feasible. If, however, the value estimated by the income capitalization approach is less than value derived by the cost approach, the investors should either scrap the project, reduce capital costs, or lower their desired return. Moreover, if this is the case, an additional equity investment may be needed to secure sufficient financing.

The data used to estimate the replacement cost of property improvements should come from a qualified source such as an experienced contractor, architect, or engineer, or

Sales

from a construction cost manual. Land value is established by analyzing sales of comparable parcels or by capitalizing the ground rental.

Table 5.1 shows ranges of typical replacement costs, land values, and soft costs for luxury, standard, and economy accommodations.

Sales Comparison Approach

The sales comparison approach is based on the assumption that an informed purchaser will pay no more for a property than the cost of acquiring an existing property with equal utility. When this approach is applied, market value is estimated by comparing the sale prices of recent transactions involving properties similar to the property being appraised. Any dissimilarities are resolved with appropriate adjustments. These differences may pertain to the time, age of sale, the location, construction, condition, layout, equipment, size of the properties, or external economic factors.

The reliability of the sales comparison approach depends on three factors:

1. Availability of timely, comparable sales data
2. Verification of sales data
3. Degree of comparability, i.e., the extent of adjustment needed to account for the differences between the subject and the comparable property

The sales comparison approach often provides highly supportable value estimates for homogeneous properties such as vacant land and single-family homes when the adjustments are few and relatively simple to compute. For larger, more complex properties such as office buildings, shopping centers, and hotels, the required adjustments are often numerous and difficult to estimate.

For example, assume an appraiser is valuing a motel property by comparing it with a similar motel across the street which was sold last year. In this case the subject differs from the comparable in the following ways:

- Seller will take back purchase-money financing
- Different franchise affiliation
- Better visibility
- More parking facilities
- Larger restaurant and smaller lounge
- Enclosed swimming pool
- Higher-grade furnishings
- Two vanity sinks per guest room

These are just a few of the many potential differences for which adjustments will be needed to make the indicated sale price of the comparable reflect the market value of the subject. In appraising lodging facilities, the adjustment process is often difficult and generally unsupported by market data. The market-derived capitalization rates that are sometimes used by appraisers are susceptible to the same shortcomings inherent in the sales comparison approach. In fact the reliability of the income capitalization approach can be substantially reduced when capitalization rates obtained from unsupported market data are used. This practice not only weakens the final estimate of value, but also ignores the typical investment analysis procedures employed by hotel purchasers.

Although the sales comparison approach is seldom given substantial weight in a hotel appraisal, it can be used to bracket a value or to check the value derived by the income capitalization approach. For example, assume an appraiser is valuing a mid-rate

economic and market indicators

For continuously updated economic indicators, visit www.appraisalsource.org.

Market Rates and Bond Yields—%

	Jun. 2009	Dec. 2008	Jun. 2008	Dec. 2007	Jun. 2007	Jun. 2006	
Reserve Bank Discount Rate	0.50	0.86	2.25	4.83	6.25	6.02	*As of April 2006, the Fed went back to reporting 30-yr rates; the historical data is 20+ year rates. A factor for adjusting the daily nominal 20 year constant maturity in order to estimate a 30-year nominal rate can be found at www.fedreserve.org/monetary/financial/debt-management/interest_rate/10compositelindex.html .
Prime Rate (monthly average)	3.25	3.61	5.00	7.33	8.25	8.02	
Federal Funds Rate	0.21	0.16	2.00	4.24	5.25	4.99	
3-Month Treasury Bills	0.18	0.03	1.86	3.00	4.61	4.79	
6-Month Treasury Bills	0.31	0.26	2.13	3.23	4.76	4.97	
3-Month Certificates of Deposit	0.39	1.77	2.76	5.02	5.33	5.35	
LIBOR-3 month rate	1.13	2.47	2.95	5.17	5.35	5.38	
U.S. 5-Year Bond	2.71	1.52	4.37	3.49	5.03	5.07	
U.S. 10-Year Bond	3.72	2.42	4.78	4.10	5.10	5.11	
U.S. 30-Year Bond*	4.52*	2.87*	5.12*	4.53*	5.20*	5.15*	
Municipal Tax Exempts (Aaa) †	4.56	5.17	4.50	4.23	4.34	4.36	† Seasonally adjusted
Municipal Tax Exempts (A) †	4.84	6.15	4.92	4.58	4.65	4.88	† Source: Moody's Bond Record
Corporate Bonds (Aaa)	5.61	5.08	5.68	5.49	5.79	5.89	†† Revised figures used when available
Corporate Bonds (A) †	6.39	6.70	6.43	6.19	6.33	6.39	
Corporate Bonds (Baa)	7.50	8.46	7.07	6.65	6.70	6.78	

Stock Dividend Yields—%

	Jun. 2009	Dec. 2008	Jun. 2008	Dec. 2007	Jun. 2007	Jun. 2006
Common Stocks—500	2.35	3.00	2.15	2.06	1.81	1.96

(Source: Standard & Poor's)

Other Benchmarks

	Jun. 2009	Dec. 2008	Jun. 2008	Dec. 2007	Jun. 2007	Jun. 2006	
Industrial Production Index § **	95.4**	103.6**	111.7**	114.1**	113.4**	111.9**	* On Nov. 7, 2005, the Federal Reserve Board advanced to 2002 the base year for the index of industrial production, capacity, and electric power use. This follows the Dec. 5, 2002, change to a 1997 base, from the previous 1997 base. Historical data has also been updated.
Unemployment (%) §	9.5	7.2	5.5	5.0	4.5	4.6	
Monetary Aggregates, daily avg.							
M1, \$-Billions	1,650.1	1,595.8	1,385.6	1,364.2	1,363.9	1,369.9	** As of March 2008, the Federal Reserve no longer reported the total reserves.
M2, \$-Billions	8,370.1	8,154.1	7,687.2	7,447.1	7,241.2	6,829.9	
Member Bank Borrowed Reserves \$-Billions **	N/A	N/A	N/A	N/A	0.187	0.253	
Consumer Price Index							
All Urban Consumers	215.7	210.2	216.8	210.0	208.4	202.9	

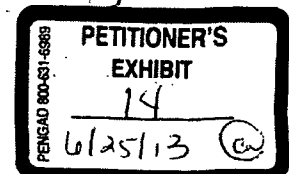
Per Capita Income

	1Q09	4Q08	1Q08	4Q07	1Q07	4Q06	1Q06
Per Capita Personal Disposable Income							
Annual Rate in Current \$s	35,180	34,821	34,351	34,179	33,307	32,754	31,791
Savings as % of D.P.I. ††	4.3	3.2	0.2	0.4	1.1	0.9	1.0

CALCULATING CAPITALIZATION RATE

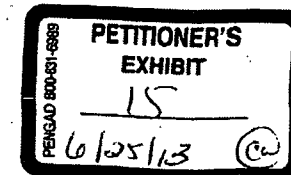
❖ Collapse of the financial and credit markets in mid-September 2008 had a historically unique impact on real estate:

- September 2008: Failure of Freddie Mac and Fannie Mae;
- September 2008: Failure of Lehman Brothers;
- September 2008: Failure of AIG;
- September 2008: Failure of Washington Mutual;
- October 2008: TARP (\$700B to purchase troubled loans);
- December 2008: Merger of Merrill Lynch with Bank of America;
- December 2008: Acquisition of Wachovia by Wells Fargo.



INVESTMENT RETURN

Per Bloomberg:	1/2/2008	12/31/2008
Freddie Mac	\$32.74	\$0.73
Fannie Mae	\$37.46	\$0.76
Lehman Brothers	\$62.19	\$0.03
AIG	\$1,126.00	\$31.40
Washington Mutual	\$13.72	\$0.02
Merrill Lynch	\$52.76	\$11.64
Bank of America	\$40.56	\$14.08



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2004 WL 3154642 (S.C. Admin. Law Judge Div.)

Administrative Law Judge Division
State of South Carolina

*1 MEETING STREET VENTURES, LLC, PETITIONER
vs.
CHARLESTON COUNTY ASSESSOR, RESPONDENT

Docket No. 03-ALJ-17-0297-CC

February 19, 2004

APPEARANCES:

For the Petitioner: Morris A. Ellison, Esquire

Cynthia Spieth Morton, Esquire

For the Respondent: Joseph Dawson, III, Esquire

FINAL ORDER AND DECISION

STATEMENT OF THE CASE

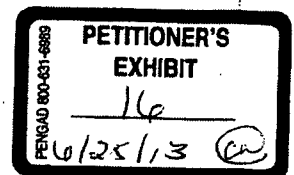
This matter comes before the Administrative Law Judge Division ("ALJD") pursuant to S.C. Code Ann. § 12-60-2540 (A) (2000) and S. C. Code Ann. §§ 1-23-310 et seq. (1986 and Supp. 2000) for a contested case hearing. The Petitioner, Meeting Street Ventures, LLC ("Taxpayer"), contests the Charleston County Assessor's ("Assessor") valuation of certain real property, identified as Tax Map No. 459-09-03-114 ("the Property"), for the 2001 tax year. After notice to the parties, a hearing was conducted on September 17, 2003. Based on the evidence, I find that the proper valuation of the property is \$7,830,000 for the 2001 tax year.

FINDINGS OF FACT

Based on the evidence presented and taking into account the credibility of the witnesses, I make the following findings of fact:

1. Notice of the time, date, place, and nature of the hearing was timely given to all parties.
2. Taxpayer owns a 2.5 acre tract of land in Charleston County located at 411 Meeting Street, Charleston, South Carolina. The property is in an area zoned light commercial and occupies a city block, bordering on Meeting, King, Mary, and Reid streets, north of Calhoun Street. Upon the property is an apartment complex consisting of 159 units: 69 efficiency apartments, 18 one-bedroom apartments, 48 one-bedroom with study apartments, and 24 two-bedroom apartments. The apartment complex contains 95,949 square feet and also has an office, clubhouse, on-site laundry facilities, and a swimming pool.

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3. The Property is identified as Charleston County Tax Map No. 459-09-03-114.

4. Taxpayer bought the Property on September 10, 1999 for \$8,200,000. Taxpayer paid a premium price for the Property because it intended to convert the apartment complex into a hotel. Taxpayer was unable to obtain financing for the acquisition of the Property at the purchase price. Taxpayer obtained the required financing by granting its lender a second priority mortgage on other hotel property owned by affiliates of the Taxpayer located in the vicinity of the Property.

5. Charleston County undertook a countywide reassessment of all real property within the county for tax year 2000. Pursuant to S.C. Code Ann. § 12-43-217, implementation of the reassessment was delayed one year and was to occur no later than January 31, 2001. As a result of the reassessment, Taxpayer's property was revalued as of December 31, 1998.

6. Stephen J. Evchnan ("Appraiser"), a certified general mass real estate appraiser employed by the Assessor, inspected the Property on behalf of the Assessor. The Appraiser determined that the highest and best use of the Property was as an apartment complex. The Appraiser valued the Property using both the income approach and the sales comparison approach. The Appraiser issued a report valuing the Property at \$7,830,000 as of December 31, 1998 for the tax year 2001.

*2 7. Based upon the Appraiser's report, the Assessor valued the Property at \$7,830,000 as of December 31, 1998 for tax year 2001. Taxpayer appealed the Assessor's valuation of the Property to the Board of Assessment Appeals, which affirmed the Assessor's valuation. Taxpayer then timely filed an appeal to the ALJD.

8. At the hearing before the undersigned, Taxpayer presented only one witness, Kimberly Bennett Brown. Ms. Brown is the asset manager for Taxpayer. She oversees the subject property and manages it on a day-to-day basis, along with other properties. Although Ms. Brown has assisted in purchasing various properties for her employer, Ms. Brown's only educational background in economics constitutes a single course in economics that she took in college. Ms. Brown is not an expert in appraising real estate.

9. Taxpayer contends that the value of the Property as of December 31, 1998 for the tax year 2001 should be \$5,900,000.

10. In arriving at the figure of \$5,900,000 for the Property, Ms. Brown looked at the income, expenses, cost of funds, and other risk factors involved in the Property. Ms. Brown used the income and expense figures contained in the Lane Company asset management reports for the Property for the years 1998, 1999, and 2000 in reaching her opinion. Ms. Brown first determined the net income of the Property by looking at the net income figure on the Lane Company asset management report and then deducting further expenses, including capital improvements and extraordinary repairs noted in the reports. This resulted in a figure shown on the Lane Company asset management report as cash flow before debt service. Ms. Brown decided to further deduct from this a figure that she "felt" would be the additional tax that the Property would incur with the new assessment. Ms. Brown estimated this figure to be \$60,000, although she admitted at the hearing that the figure may be lower than \$60,000. After making these deductions, Ms. Brown applied a capitalization rate of 11% to reach the final value of \$5,900,000.

In coming up with the capitalization rate of 11%, Ms. Brown looked at what she considered to be the cost of funds and the risk factors associated with the investment. The risk factors Ms. Brown looked at included the ability to use the Property for a particular use, the tenant mix, the availability of parking, and security. Although

Ms. Brown did not provide written evidence of the calculation she used in coming up with the 11% capitalization rate, she testified as to how she came up with that number. She testified that the interest rate at the time Taxpayer purchased the Property was 8.4%, which she used as the cost of funds. Ms. Brown then added an additional 2.6% to that figure to come up with the capitalization rate of 11%. In coming up with the additional 2.6%, Ms. Brown looked in general at the size of the units, the location, and the costs to bring the Property up to the standards of a hotel at the location. Ms. Brown further considered the rate that she "felt" that Taxpayer would need to have in order to get a return on its investment, since Taxpayer had paid a premium price for the Property. Based on these general factors, Ms. Brown "felt like" the risks associated with the investment came to 2.6%.

*3 Ms. Brown also looked at the comparable sales provided to her by the Appraiser in opining as to the value of the Property under a sales comparison approach. She placed more emphasis on the per square footage cost of the apartment complexes the Appraiser looked at than the per unit cost. Rather than looking at the actual sales comparison as used by the Appraiser, though, Ms. Brown used the figure at which the Assessor valued each apartment complex for tax valuation. Ms. Brown then calculated a per square footage value for the apartment complexes and compared it to a per square footage value for the subject Property, which she calculated based upon the \$5,900,000 valuation that she opined the Property is worth under the income approach to valuation. In comparing the figures, Ms. Brown noted that the value of the Property was still higher than the values of the other apartment complexes to which the Appraiser compared the Property.

Ms. Brown further testified that when the Taxpayer purchased the Property for \$8,200,000 in September 1999, it did not base its calculation of the purchase price on the then current value of the Property or on the value of the Property under an income approach to valuation, but rather it paid a premium for the Property because of its desire to convert the apartment complex into a hotel. After purchasing the Property, however, Taxpayer discovered that it would not be able to convert the apartment complex into a hotel because it would be displacing residences of the City of Charleston. Taxpayer continues to operate the Property as an apartment complex.

CONCLUSIONS OF LAW

1. S.C. Code Ann. § 12-60-2540 (2000) authorizes the South Carolina Administrative Law Judge Division to hear contested cases arising from controversies involving the valuation of real properties by county assessors.
2. S.C. Code Ann. § 12-37-210 (2000) defines property subject to taxation in South Carolina as "all real and personal property in this State." All such property must be assessed uniformly and equitably throughout the State pursuant to regulations promulgated by the S.C. Department of Revenue. S.C. Code Ann. § 12-43-210(A) (Supp. 2003). "All taxes upon property, real and personal, shall be laid upon the actual value of the property taxed." S.C. Const. Art. III § 29.
3. "While our constitution requires equality and uniformity in tax assessments, '[a]bsolute accuracy with respect to valuation and complete equality and uniformity are not practically attainable.'" *Reliance Ins. Co. v. Smith*, 327 S.C. 528, 537, 489 S.E.2d 674, 679 (Cl. App. 1997) (quoting *Wasson v. Mayes*, 252 S.C. 497, 502, 167 S.E.2d 304, 306-07 (1969)).
4. The taxable status of real property for a given year is to be determined as of December 31 of the preceding tax year. S.C. Code Ann. § 12-37-900 (2000).
5. A taxpayer may appeal a property tax assessment made by a county board of assessment by requesting a con-

tested case hearing before the ALJD. S.C. Code Ann. § 12-60-2540(A) (2000). As the party contesting the assessing authority's valuation, the taxpayer has the burden of proving the actual value of the property at issue. See Reliance, 327 S.C. at 534-35, 489 S.E.2d at 677. Thus, in this case, the Taxpayer has the burden of proving the correctness of the valuation it is seeking, which is \$5,900,000. Because this proceeding is in the nature of a de novo hearing, the Administrative Law Judge is not sitting in an appellate capacity and therefore is not restricted to a review of the decision below. Id. at 534, 489 S.E.2d at 677. Findings of fact shall be based exclusively on the evidence and on matters officially noticed. S.C. Code Ann. § 1-23-320(i) (Supp. 2000).

*4 6. S.C. Code Ann. Sec. 12-37-90 (2000) provides that all counties shall have an assessor, whose responsibility is appraising and listing all real property.

7. In S.C. Code Ann. Sec. 12-37-930 (Supp. 2003) the legislature set forth how property must be valued as follows: All property must be valued for taxation at its true value in money which in all cases is the price which the property would bring following reasonable exposure to the market, where both the seller and the buyer are willing, are not acting under compulsion, and are reasonably well informed as to the uses and purposes for which it is adapted and for which it is capable of being used.

Therefore, fair market value is the measure of true value for taxation purposes. Lindsay v. S.C. Tax Comm'n, 302 S.C. 504, 397 S.E.2d 95 (1990).

8. The property's highest and best use must be considered in calculating the property's value. "Highest and best use" may be defined as "the reasonable, probable and legal use of vacant land or improved property, which is physically possible, appropriately supported, financially feasible, and that results in the highest value." The Appraisal of Real Estate, Appraisal Institute, p. 45 (10th ed. 1992). Highest and best use is the use which will most likely produce the highest market value, greatest financial return, or most profit from the use of a particular piece of real estate. State Nat'l Bank v. Planning and Zoning Comm'n, 239 A.2d 528 (Conn. 1968). The highest and best use of land must be legally permissible. Appraisal Institute, Appraisal of Real Estate 303 (11th ed. 1996).

9. Although Taxpayer, when it purchased the Property, intended to transform the apartment complex into a hotel, the City of Charleston will not allow Taxpayer to do so. The highest and best use of the Property is as an apartment complex.

10. The purchase price of property, while not conclusive, is some evidence of its value. Belk Dep't Stores v. Taylor, 259 S.C. 174, 191 S.E.2d 144 (1972).

11. While not conclusive, market sales of comparable properties present persuasive evidence of fair market value of similar property. 84 C.J.S. Taxation § 512 (2001).

12. In estimating the value of property, all of its elements or incidents which affect market value or would influence the mind of a purchaser should be considered, such as location, quality, condition, and use. 1969-70 Op. S.C. Att'y Gen., No. 3045 at 337; see also 84 C.J.S. Taxation § 410 at 784; § 411 at 794 (1954). Appraisal, of course, is not an exact science, and the precise weight to be given to any one factor is necessarily a matter of judgment.

13. The income capitalization approach "looks at property value through the eyes of a typical investor. In this approach, typical rental income and its relationship to sales price is analyzed by using a capitalization rate which

represents the ratio of sales price to net rental income obtained." *Reliance*, 327 S.C. at 531, 489 S.E.2d at 675.

*S 14. "The qualification of a witness as an expert in a particular field is within the sound discretion of the trial judge." *Smock v. Liebhen-Am, Inc.*, 281 S.C. 420, 422, 315 S.E.2d 116, 118 (1984). When the expert's testimony is based upon facts sufficient to form a basis for an opinion, the trier of fact determines its probative weight. *Berkeley Elec. Co-op. v. S.C. Pub. Servs. Comm'n*, 304 S.C. 15, 402 S.E.2d 674 (1991); see also *Smock*, 281 S.C. at 422, 315 S.E.2d at 118. Further, a trier of fact is not compelled to accept an expert's testimony, but may give it the weight and credibility he determines it deserves. *Florence Co. Dep't of Soc. Serv. v. Ward*, 310 S.C. 69, 425 S.E.2d 61 (1992). He also may accept the testimony of one expert over another. *S.C. Cable Television Ass'n v. So. Bell Tel. & Tel. Co.*, 308 S.C. 216, 417 S.E.2d 586 (1992).

15. "As a general principle, a landowner, who is familiar with her property and its value, is allowed to give her estimate as to the value of the land and damages thereto, even though she is not an expert." *Bowers v. Bowers*, 349 S.C. 85, 92, 561 S.E.2d 610, 614 (Ct. App. 2002).

There is no presumption that a person is competent to give his opinion as to the value of real property. His competency must be shown. If the person is someone other than the owner of the property, the source of his knowledge must be revealed to remove his opinion from the realm of mere conjecture. A bare declaration of his knowledge of the value of the property is insufficient.

Id. (citations omitted).

16. Taxpayer's sole witness in this case, Ms. Brown, is not an expert at valuing real property. As an asset manager, she is familiar with the Property, and many of the figures used in her testimony about her opinion of the value of the Property came from an identifiable source, the Lane Company asset management reports. However, several portions of Ms. Brown's testimony were based upon conjecture and speculation. Ms. Brown provided no concrete basis, apart from her own "feelings," as to how she calculated the capitalization rate she applied to the net income to determine the value of the Property under the income approach, in particular the risk factor component. The net income figure to which Ms. Brown applied the capitalization rate was itself based in large part upon speculation; from the net income figure reported on the Lane Company asset management reports, Ms. Brown deducted capital expenditures, extraordinary repairs, and an additional \$60,000, which she speculated to be the additional taxes on the Property as a result of the reassessment. In her expressing her opinion as to the value of the Property under the sales comparison analysis, Ms. Brown used the same value figure she reached for the Property under her income approach but provided no additional basis for her opinion that the appropriate value of the Property is \$5,900,000. Essentially, Taxpayer has failed to show that Ms. Brown is competent to testify as to the value of the Property. Even considering her testimony, however, the evidence presented by the Taxpayer through Ms. Brown was insufficient to establish the value sought by the Taxpayer in this matter. Taxpayer failed to meet its burden of establishing the value it seeks; therefore, the valuation of the Assessor must be affirmed.

ORDER

*6 Based on the above findings of fact and conclusions of law,

IT IS HEREBY ORDERED that, for the 2001 tax year, the value of Taxpayer's Property at 411 Meeting Street, Charleston, South Carolina is \$7,330,000;

AND IT IS SO ORDERED.

2004 WL 3154642 (S.C.Admin.Law.Judge.Div.)

Page 6

C. Dukes Scott
Administrative Law Judge

2004 WL 3154642 (S.C.Admin.Law.Judge.Div.)

END OF DOCUMENT

CHEROKEE COUNTY COUNTY-WIDE REAPPRAISAL

NOTICE OF CLASSIFICATION APPRAISAL & ASSESSMENT OF REAL ESTATE 2013 TAX YEAR

CLASSIFICATION	LOTS/ACRES	TAXABLE VALUE	X	RATIO	=	ASSESSMENT
OWNER OCCUPIED RESIDENTIAL			X		=	
OTHER PROPERTY	1.27	1,880,000	X	.6%	=	112,800
MARKET VALUE			X		=	
USE VALUE - AGRICULTURE			X		=	
TOTAL ASSESSMENT						= 112,800

TAX MAP NUMBER
063-00-00-060.001

CURRENT MARKET
APPRAISAL 1,880,000

CURRENT TAXABLE
APPRAISAL 1,880,000

PROPERTY LOCATION - SUBDIVISION - LEGAL DESCRIPTION
834 WINDSLOW AVE DBA: "SLEEP INN"
DEED BK-18 PG-701 PLAT BK-18 PG-700
834 WINDSLOW AVE

TAX DISTRICT
10
DATE OF NOTICE
06/05/2013

TILBROS INC
4 AMI A TILVA
6 HUMMERS CT
GREENVILLE SC 29615

CHEROKEE COUNTY ASSESSOR
110 RAILROAD AVE
PO BOX 1405
GAFFNEY SC SC 29342-1405

**IF YOU DISAGREE WITH THE APPRAISAL AND ASSESSMENT,
YOU MUST FILE WRITTEN OBJECTION WITH THE ASSESSOR
WITHIN 90 DAYS OR BEFORE 09/03/2013**

FAX- 864-487-2555
PHONE- 864-487-2552

028431

IMPORTANT INFORMATION PLEASE READ

IF YOU WANT TO APPEAL THE ASSESSMENT ON YOUR PROPERTY

If you disagree with the assessor's appraisal of your property and wish to appeal, state law provides the following procedure in Sections 12-60-2510 thru 2560 of the 1976 Code of Laws, as amended.

1. Within 90 days of the date of the assessment, you must file written objection with the assessor.
2. Within 30 days of receipt of your written objection, or as soon thereafter as practical, the assessor must schedule a conference with you to discuss your objection.
3. At the conference, you may request that the assessor have a field review conducted of your appraisal/assessment. The assessor, in turn, will request that you provide additional data to help estimate the value of your property.
4. After the field review has been completed, the assessor will notify you in writing of the findings. If you still disagree with the assessment, you have 30 days to file a written notice of appeal to the County Board of Assessment Appeals, a panel of private citizens who serve as the final local authority in such appeals. If you disagree with the County Board of Assessment Appeals decision, you may appeal to the Administrative Law Judge Division.
5. State law requires that you must pay 80% of the tax generated on the proposed assessment if it appears that the appeal will not be settled by December 31 of the tax year in question.

THIS IS A NOTICE OF CLASSIFICATION APPRAISAL, AND ASSESSMENT OF REAL ESTATE

CHEROKEE COUNTY ASSESSOR
110 RAILROAD AVE
PO BOX 1405
GAFFNEY SC SC 29342-1405

Section 12-43-220 of the 1976 Code of Laws as amended provides for the classification and uniform assessment ratios of property. The property described herein has been appraised and assessed at the appropriate assessment ratio by the assessor.

EXPLANATION OF NOTICE ON BACK

PETITIONER'S
EXHIBIT
17
15-112 DW



LexisNexis®



Positive

As of: Jun 23, 2013

GLENPOINTE ASSOCIATES, ET ALS., PLAINTIFFS, v. TOWNSHIP OF TEANECK, DEFENDANTS.

DOCKET NO's 02-60-1071-160-84 (partial); 02-60-0090-12-85D, (partial); 02-60-1597-85, 02-60-0485-86D, 02-60-0489-86D, 02-60-1079-86, 02-60-0133-87D, 02-60-0134-87D, 02-60-1014-87.

Tax Court of New Jersey

10 N.J. Tax 380; 1989 N.J. Tax LEXIS 5

March 8, 1989

CASE SUMMARY:

PROCEDURAL POSTURE: Plaintiff taxpayer filed an action to challenge defendant township's tax assessment of the taxpayer's hotel property.

OVERVIEW: The subject property was the crown jewel in an upscale development complex that also included residential condominiums, two office buildings, a parking garage, and retail shops. The property was a full service, luxury class hotel situated on a parcel of 9.27 acres. The taxpayer's expert was a recognized authority on hotel and motel valuation. Relying exclusively on the income method, the expert estimated the true value of the hotel for tax valuation purposes. The township offered no evidence concerning the true value of the hotel. The township argued that the best evidence of the property's true value for tax assessment purposes was the actual cost of construction. The court disagreed, finding from the evidence that the income approach was the most probative of the property's value. The court concluded that the hotel was managed in an efficient manner so as to produce the optimal net income and further concluded that the operating revenues, as stabilized by the taxpayer's expert for all tax years under revenue, were prima facie of economic rent, subject to adjustments for business value and the value of personal property. The court also used its own expertise in valuing the hotel.

OUTCOME: Judgment was entered reducing the assessments of the hotel property.

LexisNexis(R) Headnotes

Tax Law > State & Local Taxes > Real Property Tax > Assessment & Valuation > General Overview

[HN1] The income approach is a viable method of appraising hotels and in many tax cases is given the greatest weight. Knowledgeable buyers of lodging facilities generally base their purchase decisions on factors such as forecasted net income and return on investment, which are not reflected in the cost approach.

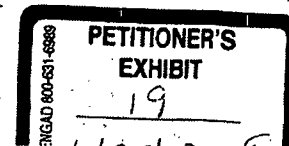
Contracts Law > Types of Contracts > Lease Agreements > General Overview

Real Property Law > Property Valuation

[HN2] The current income scale of a large well-managed apartment project functioning with short-term leases is prima facie evidence of fair rental value.

Real Property Law > Property Valuation

[HN3] One method of separating the real estate and business interest in hotel valuation is to extract from hotel revenues the fee paid by the owner to a management company pursuant to a management contract.



Real Property Law > Property Valuation**Tax Law > Federal Income Tax Computation > Valuation > Personal Property****Tax Law > State & Local Taxes > Real Property Tax > Assessment & Valuation > Valuation**

[H1N4] Replacement of personal property by the reserve method chargeable to the income of the property appraised is a generally accepted appraisal technique. It is also a reasonable way of accounting for non-taxable personal property; it does not depend upon detailed examination of book or market value of the personal property.

Real Property Law > Property Valuation**Tax Law > State & Local Taxes > Administration & Proceedings > General Overview****Tax Law > State & Local Taxes > Real Property Tax > Assessment & Valuation > General Overview**

[H1N5] The tax court may apply its own expertise in real property valuation; it is not obliged to accept the opinions of experts.

Civil Procedure > Pleading & Practice > Pleadings > Counterclaims > General Overview**Tax Law > State & Local Taxes > Real Property Tax > Assessment & Valuation > General Overview**

[H1N6] The application of *N.J. Stat. Ann. § 54:51A-6* is automatic; it must be applied where the ratio of assessed to true property value exceeds the upper limit or falls below the lower limit of the common level range, whether or not a counterclaim has been filed seeking an increase.

COUNSEL: [**1] *Daniel Amster* for plaintiffs (*Amster & Rosensweig*, attorneys).

Edward G. Rosenblum (*Rosenblum & Rosenblum*, attorneys) and *Jacob Schneider* (*Schneider, Balt & Ciancia*, attorneys) for defendants.

JUDGES: CRABTREE, J.T.C.

OPINION BY: CRABTREE

OPINION

[*383] CRABTREE, J.T.C.

This local property tax case involves the tax valuation of Loew's Glenpointe Hotel for tax years 1984 through 1987. The property is the crown jewel in an upscale development [*384] complex that also includes residential condominiums, two office buildings, a parking garage and retail shops.

The assessments, including land and buildings, are as follows:

Block & Lot		1984	1985	1986	1987
3720	5	\$ 31,095,700	\$ 35,301,700	\$ 30,924,300	\$ 30,924,300
3720	6	855,600	855,600	1,044,400	1,044,400
4403	1	183,500	183,500	298,600	298,600
3712	18	169,000	169,000	206,300	206,300
		\$ 32,303,800	\$ 36,509,800	\$ 32,473,600	\$ 32,473,600

The uses of the subject property, identified by block and lot, are as follows:

Block & Lot	Use
3720 5	Hotel & Spa
3720 6	Hotel Parking Lot
4403 1	Hotel Employee Parking Lot
3712 18	HVAC Building *
* This building services the East Office	

Block & Lot	Use
Building as well as the hotel.	

[**2] The Loew's Glenpointe Hotel is a full-service, luxury-class hotel situated on a parcel of 9.27 acres. The hotel has 347 guest rooms, approximately 19,500 square feet of meeting space, two restaurants, a lounge, a lobby bar and a health club known as "The Spa at Glenpointe."

The facility enjoys a prominent location at the interchange of Interstate Route 95 and DeGraw Avenue in Teaneck and is located exactly three miles from the George Washington Bridge. The edifice has an imposing facade finished in black anodized aluminum. It is a prominent landmark, highly visible when approached from either direction on I-95.

The hotel opened for business on November 15, 1983. The average occupancy in 1984, the first full year of operation, was 64%, while the average room rate in that year was \$ 82.04. The [*385] occupancy increased to 70.4% in 1985, while the average room rate increased to \$ 94.14. The average occupancy fell off slightly in

1986 to 69.6% while the average room rate continued to rise (to \$ 98.38). In 1987 the occupancy declined to 64.8% but the average room rate increased to \$ 104.39.

The total construction costs, both direct and indirect, for the hotel and the spa were \$ 31,443,732. [**3] Plaintiff paid \$ 1,052,910, exclusive of off-site improvements required by the purchase contract, for about 48 acres of vacant land which included the 9.47 acres which became the hotel site.

Plaintiff's expert was a recognized authority on hotel and motel valuation. He has valued more than 500 lodging facilities in nearly every state in the United States over a recent 12-year span and he claims to possess hands-on knowledge and experience as an investor in hotels.

Relying exclusively on the income method, the expert estimated the true value of the hotel for tax valuation purposes as follows:

10/1/83	
10/1/84	\$ 17,900,000
10/1/85	18,100,000
10/1/86	21,000,000
	27,200,000

In arriving at these value estimates the expert began with the actual income and expense for 1986, which he adjusted for a stabilized occupancy rate of 70% and room department expense of 24%. (Actual expense in that category was 27.4%). He then posited net income for other tax years by adjusting up or down from 1986. In order to arrive at the true value of the real property itself, the expert undertook to eliminate business value and the value of the personal property.

He opined that the business [**4] value of a hotel is reflected in the compensation paid to a professional management agent to assume responsibility for daily operations of the hotel, thereby permitting the owner to maintain only a passive interest. That compensation is measured by a percentage of total hotel revenues. In this case the management agreement between the [*386] owner and Loew's Corporation, the management company, calls for a payment to Loews of 3% of total reve-

nue for each of the first two fiscal years of operation and 3.25% of total revenues for each year thereafter. The expert utilized the percentages in the management contract as his adjustment for business value as he concluded that the contract reflected the industry norm for hotels of the subject's size and type.

The expert made two adjustments to eliminate the value of personal property, i.e., the furniture and equipment. He achieved the return of personal property by positing a replacement reserve equal to 3% of total hotel revenues; the return on personal property was estimated by positing a rate of return approximating the interest rate on hotel mortgages for the tax years in question, which he applied to the depreciated book value of the [**5] personal property.

Thus, the income posited by the expert, after all the aforementioned adjustments, was as follows:

	1984	1985	1986	1987
Stabilized net				
income				
before real				
estate taxes	\$ 4,392,000	\$ 4,549,000	\$ 4,636,000	\$ 4,822,000
Less: income				
attributed to				
business	546,000	565,000	624,000	649,000
Personal				
property	1,145,000	1,220,000	1,083,000	938,000
Stabilized net				
income				
attributable				
to real				
estate	\$ 2,701,000	\$ 2,764,000	\$ 2,929,000	\$ 3,235,000

The expert applied a capitalization rate to these stabilized and adjusted net income estimates to arrive at the value conclusions set forth earlier in this opinion. He developed his capitalization rate by means of the mortgage-equity band of investment [*387] method, postulating a 75% mortgage position and a 25% equity position. He averred that a mortgage term of 30 years would be appropriate for a hotel of the subject's age and quality. In selecting the appropriate mortgage interest rate for each year in issue, the expert relied upon data published by the American Council of Life Insurance (ACLI), focusing upon mortgage interest rates and constants for hotel and motel loans made by ACLI members in 1983, 1984, [**6] 1985 and 1986. He refined his analysis

further by concentrating on mortgage interest rates for the third and fourth quarters of the pretax years 1983-1986. He averaged the rates for those two quarters in each year and applied the constant appropriate to a 30-year amortization schedule.

He posited a 10% cash-on-cash equity return for each year.

Finally, he applied an unweighted, unclassified assessment-to-sales ratio to the actual tax rate for each tax year in order to account for local property taxes in the capitalization rate. Thus, the expert's capitalization rate looked like this for each year:

1984	
70% mortgage, constant 13.22%	9.91%
25% equity @ 10%	2.50%
Effective tax rate 3.28% x	
82.91%	2.72%
	ard of
	Say 15.1%
1985	
75% mortgage, constant 13.65%	10.24%
25% equity @ 10%	2.50%

Effective tax rate 3.45% x	
75.06%	
	2.59%
	15.33%
	Say 15.3%
1986	
75% mortgage, constant 12.39%	
25% equity @ 10%	9.29%
Effective tax rate 3.57% x	2.50%
60.38%	
	2.16%
	13.95%
	Say 14.0%
1987	
75% mortgage, constant 10.09%	
25% equity @ 10%	7.57%
Effective tax rate 3.81% x	2.50%
47.34%	
	1.80%
	11.87%
	Say 11.9%

[*388] At the trial the expert [**7] acknowledged that his appraisal treated spa income and expense incorrectly. He then made certain adjustments to reflect the fact that the spa was operated under a lease with the

hotel, not as an integral department thereof. Those adjustments led to a modification of his true value conclusions so that his value estimates for the tax years in issue became:

Tax year	Value
1984	\$ 20,665,000
1985	20,797,000
1986	23,992,000
1987	30,696,000

Defendant offered no evidence concerning the true value of the hotel.

The first issue to be addressed is defendant's contention that the best evidence of the subject's true value for tax assessment purposes is the actual cost of construction. Defendant argues that the hotel is a special purpose property, which can be properly valued only by the cost approach, citing *Anaconda Co. v. Perth Amboy*, 157 N.J. Super. 42, 384 A.2d 531 (App.Div.1978), vacated and remanded on other grounds 81 N.J. 55, 404 A.2d 1155 (1979), *Pantasote Co. v. Passaic*, 6 N.J. Tax 34 (Tax

Ct.1983), aff'd 100 N.J. 408, 495 A.2d 1308 (1985) and [*389] *Transcontinental Gas Pipe Line Corporation v. Bernards Tp.*, 111 N.J. 507, 545 A.2d 746 (1988). Defendant's argument must fail for [**8] four reasons.

First, the search is for the fair value of the subject property; and in that connection consideration should be given to all three approaches to value, even if one assumes the property to be special purpose in character. There is no doctrinaire approach to value. *New Brunswick v. State of N.J. Div. of Tax Appeals*, 39 N.J. 537, 543-544, 189 A.2d 702 (1963); *Brockway Glass Compa-*

my v. Freehold Tp.; 10 N.J. Tax 356, 371 (Tax Ct.1989). In the instant case I find from the evidence that the income approach is the most probative of the subject's value.

Second, there is no evidence in this case that the hotel is a special purpose property. Defendant declined to introduce an affirmative case on the hotel's true value; the expert testified on cross-examination that in his opinion, the hotel structure could be devoted to an alternate use; and no documentary evidence introduced by either party supports a finding of special purpose.

Third, defendant argues from its premise about the cost approach that plaintiff would not sell the property for less than the cost to build it. Defendant ignores an indispensable component of market sale transactions: there [**9] are always two parties, a seller and a buyer, and each of them has a desire that conflicts with the other, namely, the price at which the property will sell for. It may be that the seller is reluctant to sell property for less than he paid to have it built. The prospective buyer, on the other hand, may be unwilling or unable, for a variety of reasons, to pay more than a certain amount, and that amount could be far less than the sellers' actual cost of construction. "Expensive buildings are frequently sold for much less than cost as is common knowledge. . . ." *Haworth v. State Board of Tax Appeals*, 132 N.J. 306, 308, 40 A.2d 353 (Sup.Ct.1945). See *Highview Estates v. Englewood Cliffs*, 6 N.J. Tax 194, 201 (Tax Ct.1983).

[*390] Finally, [HN1] the income approach is a viable method of appraising hotels and, in many cases, is given the greatest weight. Hall and Benton, "Hotel and Motel Valuation," *Encyclopedia of Real Estate Appraising* (3 ed. 1978) at 631, 642. Knowledgeable buyers of lodging facilities generally base their purchase decisions on factors such as forecasted net income and return on investment, which are not reflected in the cost approach. Rushmore and Rubin, "The Valuation [**10] of Hotels and Motels for Assessment Purposes," *The Appraisal Journal*, (April 1984) at 270, 273.

Defendant next argues that plaintiff's income approach must be rejected for failure of proof. Specifically, defendant contends that the expert's failure to analyze other hotel properties and his reliance upon stabilized income and occupancy of the subject alone preclude a judicial determination of the fair rental value of the hotel. Defendant distinguishes the hotel valuation in this case from the valuation of a multi-family apartment property, where, our Supreme Court held, [HN2] the current income scale of a large well-managed apartment project functioning with short-term leases is *prima facie* evidence of fair rental value. *Parkview Village Assoc. v. Collingswood*, 62 N.J. 21, 297 A.2d 842 (1972). Defendant argues that the labor-intensive retail business

aspects of a hotel and the degree of management expertise required in a hotel operation make the presumption of *Parkview Village* inapposite. I cannot agree.

To begin with, resort to revenues of other hotels does not aid in the judicial quest for economic rent of the subject. For, as defendant argues, a hotel is a labor-intensive [**11] business requiring a high degree of management expertise; so that the revenues of other hotels require the same adjustments to eliminate business value as the expert made with respect to the revenues of the subject. The adjustments in the revenues of other hotels thus vitiate the probative value of those revenues.

Second, the evidence shows that the hotel is managed pursuant to an arms'-length management contract, the provisions of [*391] which provided incentives to management to maximize revenues. The record also indicates that Loew's is an experienced, expert hotel management concern.

In view of the foregoing I conclude that the subject hotel is managed in an efficient manner so as to produce the optimal net income. The principles of *Parkview Village* are thus applicable to the tax valuation of a hotel; and I conclude that the operating revenues of the subject hotel, as stabilized by plaintiff's expert for all tax years under revenue, are *prima facie* of economic rent, subject to adjustments for business value and the value of personal property.

The next issue to be addressed is the expert's adjustment to extract the hotel's business value. [HN3] One method of separating [**12] the real estate and business interest in hotel valuation is to extract from hotel revenues the fee paid by the owner to a management company pursuant to a management contract. See, e.g., Rushmore, *Hotels, Motels and Restaurants: Valuations and Market Studies* (1983) at 105-106; Nelson, Messer and Allen, "Hotel Enterprise Valuation," *The Appraisal Journal* (April 1988) at 163-164. This is the technique adopted by the expert in this case. I find it to be reasonable. I also find the amounts specified in the management contract, namely, 3% of gross revenues for 1984 and 1985 and 3.25% of gross revenues for 1986 and 1987, to be reasonable.

An adjustment is in order; however, with respect to the revenues against which the management fee is measured. The management contract defines revenues to exclude gross receipts from lessees, licensees and concessionaires. The expert conceded on cross-examination that, under this definition, receipts from the spa should have been excluded from the revenue base in his calculation of the management fee. Accordingly, in adjusting for the management fee as income attributable to the business, the court will reduce the revenue base by the amount [**13] of total receipts attributable to the spa.

In light of the expert's stabilizing technique, in which he used 1986 as the norm, the court will assume that spa revenues for [*392] 1984, 1985 and 1987 comprise 7.7% of total normalized revenues. Receipts from the spa for 1986, the normalizing year, amounted to 7.7% of total revenues.

The next issue to be addressed is the expert's adjustment to eliminate personal property, which he effectuates by extracting both the personal property itself and the hypothetical income therefrom. He extracts the personal property by means of a 3% replacement reserve charged against hotel revenues. He extracts the income by hypothesizing a rate of return equal to the interest rate on hotel mortgages viewed as of the relevant assessing dates.

[HN4] Replacement of personal property by the reserve method chargeable to the income of the property appraised is a generally accepted appraisal technique. American Institute of Real Estate Appraisers, *The Appraisal of Real Estate* (9 ed. 1987) at 450-451. It is also a reasonable way of accounting for non-taxable personal property: it does not depend upon detailed examination of book or market value of the personal property.

[**14] However, while the expert testified that the industry norm for replacement reserves was 3% to 5% of total revenues--and he chose 3%--an examination of the management contract with Loew's indicates that, pursuant to the formula there employed, the replacement reserve amounted to 1% of revenues for all tax years in issue. As the replacement reserve is the technique used to extract the hotel's personal property the court will adopt the reserve level actually utilized under the management contract.

In estimating the return on personal property the expert relied upon depreciated book cost of furniture, fixtures and equipment. Defendant argues that this adjustment must be rejected as the expert failed to distinguish between movables and fixtures. The difference is important, as the purpose of the adjustment is to eliminate non-taxable personal property and some fixtures in the hotel may be taxable as real property pursuant to *N.J.S.A. 54:4-1*, as amended by *L. 1986, c. 117*. Although *c. 117* purports to be effective October 8, 1986, [*393] section 4 thereof states that the statute applies to all court or county board proceedings pending on the date of enactment. This retroactive [**15] provision has

been upheld in a recent *en banc* opinion of this court. *Chevron, U.S.A., Inc. v. Perth Amboy*, 9 N.J. Tax 205 (Tax Ct. 1987). Defendant's contention is correct. The expert admitted that he made no distinction between movable personal property (which is not taxable as real property) and fixtures, which, for the most part, may well be taxable as part of the real property under the standards established by *c. 117*. As the expert failed to make this critical distinction, the court cannot accept his adjustment for the income on personal property.

I The court does not pass on the propriety of an adjustment regarding the income attributable to personal property. That is best left for another day.

The final items in dispute relative to hotel revenues and expenses are the treatment of spa income and expense and spa rental and common area maintenance charges.

The expert assumed, erroneously as it turned out, that the spa was a department of the hotel. It was not. The spa was operated under a lease between the hotel owner and its tenant, The Spa at Glenpointe, Inc. All the income and expense of the spa are thus attributable to the lessee, [**16] not to the hotel. Moreover, the annual rent of \$ 325,000 payable by the lessee must be reflected in hotel income. Spa income, in the normalizing year 1986, amounted to 7.7% of total revenues, while spa expenses in that year were 17.33% of total departmental expenses. The common area maintenance (CAM) charges are on a different footing. Those charges are payable to plaintiff as the owner of the entire development of which the hotel is only one component. The court must value the hotel as though sold on the assessing dates. *N.J.S.A. 54:4-23*. The purchaser would be obligated to pay CAM charges to the owner of the development. Accordingly, CAM charges will not be added to hotel income as part of spa rent.

[*394] Total hotel revenues, as normalized and stabilized for each tax year, with 1986 as the normalizing year, will be adjusted to reduce revenues by 7.7% in each year and expenses by 14.57%. Also, the annual spa rent of \$ 325,000 will be added to total revenues for each year.

On the basis of the foregoing the court finds economic rent of the hotel to be as follows:

	(+000)			
	1984	1985	1986	1987
Total revenue	17,114	17,713	18,048	18,757

	(+000)			
	1984	1985	1986	1987
Management fee (3%)	513	531	507	563
Return of personal property (1%)	171	177	180	188
Gross economic income after elimination of business value and value of personal property	16,430	17,005	17,327	18,006
Less expenses (70%) *	11,980	12,400	12,633	13,130
Economic net income	4,450	4,605	4,694	4,876
* After elimination of spa revenues and expenses but with addition of spa rent. The expense ratio is based upon total revenues before adjustments for business value and personal property.				

[**17] The only issue remaining to be addressed is the capitalization rate. The expert, who professed to rely upon data from the American Council of Life Insur-

ance (ACLI) ² for all relevant periods, postulated the following capitalization rates, exclusive of the tax rate:

1984	
75% mortgage (12.94% interest, constant 13.22%)	9.91%
25% equity @ 10%	2.50%
	12.41%
1985	
75% mortgage (13.4% interest, constant 13.65%)	10.24%
25% equity @ 10%	2.50%
	12.74%
1986	
75% mortgage (12.05% interest, constant 12.39%)	9.29%
25% equity @ 10%	2.50%
	11.79%

1987	
75% mortgage (9.5% interest, constant 10.09%)	
25% equity @ 10%	7.57%
	2.50%
	10.07%

2 The ACLI data was not included in his appraisal.

[*395] The court cannot accept all of the expert's postulated mortgage interest and equity dividend rates. I have undertaken an independent examination of the compendious data published by ACLI for all four quarters of each of the pretax years (1983 through 1986), with [**18] particular reference to the capitalization rates and loan values (mortgage positions) revealed by the ACLI data. To be sure, the capitalization rate column is not the product of sales; rather, the rates in the column reflect the relationship between net income and an appraiser's estimate of fair market value of the property. Nevertheless, the capitalization rate data is highly probative inasmuch as the insurance companies included in the

ACLI survey all make mortgage commitments on the basis of those appraised values.

I find that the aforementioned data, while not in the record, are widely disseminated, readily available, and frequently relied upon by professionals in the local property tax field. I therefore take judicial notice of the data pursuant to *Evid.R. 9(2)*.

[*396] Furthermore, [HN5] this court may apply its own expertise in real property valuation; it is not obliged to accept the opinions of experts. *Glen Wall Associates v. Wall Tp.*, 99 N.J. 265, 491 A.2d 1247.

Examination of the ACLI data disclosed the following averages for the years 1983 through 1986:

Year	No. of loans	Cap. rate	Interest rate	Constant	Loan position
1983	47	12.2%	12.75%	13.17%	72%
1984	27	11.96%	13.5%	13.7%	70%
1985	77	11.8%	12.18%	12.4%	70%
1986	60	10.2%	10.00%	11.15%	70%

[**19] On the basis of the foregoing data I conclude that the relevant capitalization rates, exclusive of

the effective tax rate, are as follows with respect to each of the tax years under review:

1984	
(10/1/83)	
70% mortgage (12.75% interest, constant 13.31%)	
30% equity @ 10% *	9.32%
	3.00%
	12.32%
1985	

(10/1/84)	
70% mortgage (13.5% interest, constant 13.75%)	
30% equity @ 8% *	9.60%
	2.40%
	12.00%
1986	
(10/1/85)	
70% mortgage (12% interest, constant 12.34%)	
30% equity @ 11.2% *	8.64%
	3.36%
	12.00%
1987	
(10/1/86)	
70% mortgage (10% interest, constant 10.9%)	
30% equity @ 8.6% *	7.63%
	2.57%
	10.20%
* As the overall capitalization rate reflected in the ACLI data includes an equity component, I have ascertained the equity component by simply subtracting the weighted mortgage position from the overall capitalization rate.	

[*397] Defendant argues that mortgage interest rates should be stabilized for tax assessment purposes. The argument is facially appealing. It is indeed an established principle of law that property tax assessments should not be hostage to volatile fluctuations in the financial markets; and that the rate of [**20] return for tax purposes should reflect conditions for a reasonable span of years. *New Brunswick v. N.J. Div. of Tax Appeals*, 39 N.J. 537, 550, 189 A.2d 702 (1963); *Inwood at Great Notch v. Little Falls*, 6 N.J. Tax 316 (Tax Ct. 1984). Defendant's argument, however, will be rejected for two reasons. First, the weighting factor in the band-of-investment calculations tends to smooth out the fluctuations in mortgage interest rates from one year to the next. Second, the application of c. 123 in non-revaluation years, with its safety corridor of 30%, eliminates all but the most extreme fluctuations. I conclude from an examination of the mortgage rates utilized

by the expert that there are no severe fluctuations from one year to the next in this case so as to require a stabilizing adjustment.

The expert utilizes the unweighted, unclassified ratio in determining the effective tax rate component of the capitalization rate. The logical corollary to the use of such ratio in formulating the tax rate is that the same ratio would be applied to the court's determination of the proper assessment irrespective of the 30% leeway mandated by c. 123 and in disregard of [*398] the requirement [**21] that the taxable value of real property be fixed at 100% of true value in a revaluation year.

For the reasons expressed at some length in this court's opinion in a companion case involving other property in Teaneck owned by Glenpointe Associates and including the same tax years as are in issue herein the court will not apply the unclassified, unweighted

ratio in determining plaintiff's entitlement to discrimination relief. The statutory remedy of c. 123 is controlling. *Glen Pointe Associates v. Teaneck*, 10 N.J. Tax 288, 306-308 (Tax Ct. 1988) (slip opinion at 20-23).

Thus, the effective tax rate is determined by multiplying the actual tax rate by the Director's ratio promulgated pursuant to c. 123 for each tax year. (That ratio is 100% for 1984, a revaluation year.). The effective tax rates are:

1984	(3.28% x 100%)	3.28%
1985	(3.45% x 90.48%)	3.12%
1986	(3.57% x 81.38%)	2.90%
1987	(3.81% x 67.33%)	2.56%

The total capitalization rates, inclusive of the effective tax rate, for the years in issue are as follows:

1984	14.60%
1985	15.12%
1986	14.9%
1987	12.76%

The expert included in his appraisal the value of Block 4403, Lot 1, which this court has previously [*22] adjudicated in a separate opinion. The true value of that parcel will thus be subtracted from the capitalized value of the hotel. The expert also included 10% of the value of the parking garage in his valuation of the hotel. As the evidence shows that the hotel paid an annual rental for use of the garage by guests and visitors, no part of

the garage will be included in the court's finding of the hotel's true value.

In view of the foregoing the court will apply the indicated capitalization rates to the economic net income as hereinabove found, and subtract the previously adjudicated true value of [*399] Block 4403, Lot 1 for the years 1984 through 1987. The result is the hotel's true value for each of the years in issue, to wit:

1984		
\$ 4,450,000 / 14.60% =	\$ 30,479,400	(rounded)
Less value of Block 4403, Lot 1	244,600	
True value	\$ 30,234,800	
1985		
\$ 4,605,000 / 15.12% =	\$ 30,456,300	(rounded)
Less value of Block 4403, Lot 1	269,000	
True value	\$ 30,187,300	
1986		

\$ 4,694,000 / 14.9% =	\$ 31,503,300	(rounded)
Less value of Block 4403, Lot 1	366,900	
True value	\$ 31,136,400	
1987		
\$ 4,876,000 / 12.76% =	\$ 38,996,800	(rounded)
Less value of Block 4403, Lot 1	428,000	
True value	\$ 38,568,800	

[**23] *Discrimination.*

The assessments of the hotel property (including the HVAC building) were:

Tax year 1984 was a revaluation year, to which c. 123 is inapplicable by its terms. *N.J.S.A. 54:51A-6(d)*.

Block 3720, Lot 5	\$ 31,095,700	(96.81%)
Block 3720, Lot 6	855,600	(2.66%)
Block 3712, Lot 18	169,000	(0.53%)
Total	\$ 32,120,300	(100.0%)

As 1984 was a revaluation year and the court has rejected the use of the unweighted, unclassified ratio, judgment will be entered reducing the assessments of the

hotel property to the true value of \$ 30,234,800, allocable as follows: [*400]

Block 3720, Lot 5	\$ 29,270,300
Block 3720, Lot 6	804,200
Block 3712, Lot 18	160,000
	\$ 30,234,800
1985, 1986 and 1987.	

3 Although an allocation of the taxable value among all three of the lots involved is required, no judgment will be entered with respect to the 1984 assessment of Block 3712, Lot 18, as no appeal was filed for 1984 with respect to Block 3712, Lot 18.

As stated above with respect to the proper ratio to be employed in formulating the effective tax rate, the court rejects the use of the unweighted, unclassified ratio.

Plaintiff has not shown that the application [**24] of c. 123 leaves it with confiscatory assessments, a showing mandated by *Murnick v. Ashbury Park*, 95 N.J. 452, 471 A.2d 1196 (1984) and *525 Realty Holding Co. v. Hasbrouck Heights*, 3 N.J. Tax 206 (1981). Chapter 123 will thus be applied to 1985, 1986 and 1987. As stated earlier, 1984 was a revaluation year to which c. 123 does not apply.

[HN6] The application of c. 123 is automatic; it must be applied where the ratio of assessed to true value

exceeds the upper limit or falls below the lower limit of the common level range, whether or not a counterclaim has been filed seeking an increase. *Weyerhaeuser Co. v. Closter Boro.*, 190 N.J. Super. 528, 464 A.2d 1156 (App.Div.1983); *Abe Schrader Corp. v. Secaucus*, 8 N.J. Tax 390 (Tax Ct.1986). See *FMC Stores Co. v. Morris Plains Boro.*, 100 N.J. 418, 428-430, 495 A.2d 1313 (1985) (court distinguishes a municipality's claim for

increased assessment in year to which c. 123 does not apply).

Thus, N.J.S.A. 54:51A-6 will be applied in this case for the years 1985, 1986 and 1987.

The average ratios and upper and lower limits of the common level range, all as determined by the Director, Division of Taxation pursuant to N.J.S.A. 54:1-35b, are as [**25] follows: [*401]

Year	Average ratio	Upper limit	Lower limit
1985	90.48%	100%	76.91%
1986	81.38%	93.59%	69.17%
1987	67.33%	77.43%	57.23%

The assessments for 1985, 1986 and 1987 were:

Block	Lot	1985	1986	1987
3720	5	\$ 35,301,700	\$ 30,924,300	\$ 30,924,300
3720	6	855,600	1,044,400	1,044,400
3712	18	169,000	206,300	206,300
		\$ 36,326,300	\$ 32,175,000	\$ 32,175,000

The ratio of assessments to true value for tax year 1985 exceeds 100%. Thus, N.J.S.A. 54:51A-6(b) requires that the assessments be revised by applying the average

ratio (90.48%) to the court's finding of true value (\$ 30,187,300); and the assessments will consequently be fixed at \$ 27,343,600, allocated as follows:

Block 3720, Lot 5	\$ 26,471,300
Block 3720, Lot 6	727,300
Block 3712, Lot 18	145,000
	\$ 27,343,600

The ratio of assessments to true value for 1986 is 99.32%, which exceeds the upper limit of the common level range. Thus, the assessments will be revised by applying the average ratio (81.38%) to the court's finding

of true value (\$ 31,136,400); and the assessments will consequently be fixed at \$ 25,341,900, allocated as follows:

Block 3720, Lot 5	\$ 24,533,500
Block 3720, Lot 6	674,100

Block 3712, Lot 18	
	134,300
	\$ 25,341,900

[**26] The ratio of assessments to true value for 1987 is 80.17%, which exceeds the upper limit of the common level range for that year. Thus, pursuant to *N.J.S.A. 54:51A-6(a)* the assessments will be revised by

applying the average ratio (67.33%) to the court's finding of true value (\$ 38,568,800); and the assessments [*402] will consequently be fixed at \$ 25,968,300 allocated as follows:

Block 3720, Lot 5	
Block 3720, Lot 6	\$ 25,139,900
Block 3712, Lot 18	690,800
	137,600
	\$ 25,968,300

The judgment for all years will reflect a further allocation between land and improvements in the same proportion as the original assessments for each year.

Compare: Taxpayer Approach vs. County Approach

	TAXPAYER	COUNTY
Income	\$572,747	\$736,576
Expense	\$337,942	\$460,434

Net Income Before Adjustments for Business Value & Personal Property	\$234,805	\$276,142
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Business value adjustment		
Management Fee 3%	\$17,182	\$22,097
Franchise Fee (7.6%)	\$43,259	\$47,804
TOTAL	\$60,700	\$69,900
Personal property adjustment		
Return "Of"	\$28,637 (5%)	\$7,366 (1%)
Return "On"	\$6,156	NONE
TOTAL	\$34,793	\$7,366
Net Operating Income Attributed to Real Estate	\$139,305	\$198,876
Less Real Estate Taxes	-\$55,535	NONE
Net Operating Income	\$83,770	\$198,876
Capitalization Rate	12%	10%
Value after Capitalization	\$698,000	\$1,988,760
Less Personal Property		-\$72,000
	\$698,000	\$1,917,000

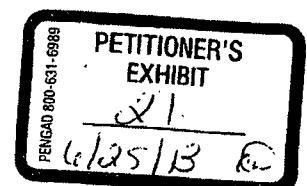
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Hotels and Motels: A Guide to Market Analysis, Investment Analysis, and Valuations

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The .1073 after-tax overall rate is the average of the mortgage constant and the equity dividend rate assuming a 75%-to-25% weighting. The tax adjustment shows that the property tax burden will equal 1.33% of the real property's market value. This relationship of the assessment ratio to the real estate tax rate is known as the *effective tax rate*.

The value of the ongoing business and personal property components must now be separated from the total property value to isolate the pure real property value—i.e., the value of the land and improvements. Since the appraisal is based on the income capitalization approach, a portion of the income flow may be ascribed to a particular component and deducted from the stabilized net income before real estate taxes.

Business Value Adjustment

The business component of a hotel's income stream accounts for the fact that a lodging facility is a labor-intensive, retail-type activity. Another facet of business value is the benefits that accrue from the facility's association with a recognized hotel company through either a franchise or a management contract affiliation. Chain hotels generally outperform independents, and the additional value created by increased profits is exclusively business-related.

Several procedures can be used to estimate the business value of a lodging facility. In the current economic environment, the most appropriate theory is to presume that a professional management agent is employed to take over the day-to-day operation of the hotel, thereby allowing the owner to maintain only a passive interest. Thus the income attributed to the business is taken by the managing agent in the form of a management fee. Deducting a management fee from the stabilized net income removes a portion of the business component from the income stream. An additional business value deduction must be made if the property benefits from a chain affiliation. This is accomplished by either increasing the management fee expense or making a separate franchise fee deduction.

Hotel management fees, expressed as a percentage of total revenue, range from 2% to 4% for independent, nonchain management companies and from 4% to 8% for larger chains and nationally recognized agents. Franchise fees usually range from 3% to 4% of total rooms revenue. Often hotels are managed by one of the smaller, independent management companies and affiliated with a chain through a franchise. The proper business value deduction in such an instance would include a management fee expense of 2% to 4% of total revenue plus a franchise fee of 3% to 4% of rooms revenue. The business value deduction under this set of circumstances should approximate the management fee expense charged by a national hotel chain.

In the following calculations business value is estimated under both management assumptions:

Managed by nationally recognized hotel chain

Total revenue	Management fee—national hotel chain	Business income
\$17,882,000	.05	\$894,000

Managed by independent with franchise affiliation

Total revenue	Management fee—independent		
\$17,882,000	.03	=	\$536,000
Rooms revenue	Franchise fee		
\$10,186,000	.035	=	\$357,000
	Business income	=	\$893,000

These calculations demonstrate that the income attributed to the ongoing business is approximately the same under both assumptions. If the subject were an independent hotel without a franchise affiliation, the proper business value deduction would be \$893,000.

It is reasonable to use a management fee to separate the income attributed to the going concern from the income attributed to the overall property because many hotels are operated by managing agents and their fees have become a normal operating expense that is routinely included in hotel appraisals. Franchise fees are also common deductions.

The net effect of the business value adjustment is zero because the stabilized net income was previously adjusted upward for the assumed management and franchise fees.

Personal Property Adjustment

The personal property within a hotel consists of its furniture, fixtures, and equipment. Although some jurisdictions assess and tax personal property separately, it must be isolated and excluded from the real property components. Two calculations are needed to remove personal property value from the income flow—a return of personal property and a return on personal property.

The return of personal property is necessary because FF&E has a relatively short useful life and must be replaced periodically. The Internal Revenue Service's depreciation guidelines state that the life expectancy of hotel furnishings and equipment averages six to 10 years. Although the replacement of FF&E is a capital expenditure and is not included on an accountant's income and expense statement, it does represent a reduction in cash flow and equity return and has a negative effect on a property's market value. Hotel companies and appraisers account for the frequent replacement of FF&E by establishing an expense deduction known as a *reserve for replacement*. This fund, which reduces the hotel's cash flow in annual installments, is set at the amount necessary to replace all existing FF&E with new FF&E over an assumed useful life. Two procedures can be used to calculate the reserve for replacement: straight-line and percentage of revenue.

Straight-Line Method

The current cost to furnish and equip the subject property with new FF&E is estimated at \$21,500 per room. This represents guest room, lobby, restaurant and lounge furnishings; kitchen, front desk, and office equipment; and all other items of FF&E expressed on a per-room basis. The useful life is estimated at 10 years. The yearly reserve for replacement or return of personal property is calculated as follows:

Number of rooms		Replacement cost		Total cost
250	×	\$21,500	=	\$5,375,000
		Estimated life	=	10 years
		Yearly return of personal property		\$537,000

A somewhat lower yearly return of personal property would result if an interest-bearing sinking fund were established to accumulate the reserve for replacement. In reality, however, hotels are not closed down and totally refurbished once every eight to ten years. The replacement process is ongoing, with soft goods lasting one to three years, case goods eight to 10 years, and kitchen equipment 12 to 15 years. The actual reserve fund generally has a minimal balance and any accumulation of interest is insignificant. Using a sinking fund calculation to establish a yearly return of personal property is therefore not appropriate.

Percentage-of-Revenue Method

The total stabilized revenue for the subject property is estimated at \$17,882,000 and the appropriate reserve for replacement, expressed as a percentage of revenue, has been set at 3%. The yearly reserve for replacement or return of personal property is calculated as follows:

$$\begin{array}{rcll} \text{Total revenue} & \times & \text{Percentage of revenue} & = \text{Yearly return of personal property} \\ \$17,882,000 & \times & .03 & = \$537,000 \text{ (rounded)} \end{array}$$

This procedure is well supported and documented. Many hotel management companies stipulate in their contracts that a reserve for replacement must be maintained and the formula used must be based on a percentage of total revenue. The industry norm for a reserve for replacement, expressed as a constant percentage, ranges from 3% to 5%. Sometimes the formula calls for a lower percentage of 1% to 2% during the initial years of operation which increases in a series of steps to 4% to 5% in the seventh to tenth years. For appraisal purposes a constant percentage is generally the most appropriate.

The return on personal property is the second calculation required to estimate the income attributed to personal property so that it can be removed from the income stream. This calculation is based on the premise that a property component is entitled to an annual return equal to the cost of the capital that comprises that component. In this instance the component consists of all FF&E currently in use at the subject property. The value of the FF&E component can be estimated in several ways. A personal property appraiser might inventory and value each item, thereby producing a highly supportable value estimate, but this procedure would be both time-consuming and costly. If the taxing jurisdiction assesses personal property separately, the current assessed value can be used. Occasionally the book value of the FF&E may be utilized, but this figure may understate the market value of the FF&E in use.

The percentage rate of return on personal property should reflect the cost of the capital commonly used to purchase FF&E. Chattel mortgages normally bear interest rates two to five points higher than estate mortgages, which demonstrates the perceived risk of personal property investments. Unfortunately chattel financing is rare and the interest rates for these loans are difficult to document. The current interest rates on hotel mortgages probably understate the required FF&E rate of return, but these data are readily available and provide a firm benchmark that is difficult to dispute.

The value of the FF&E currently in use at the subject property is estimated at \$15,000 per room. The percentage rate of return is estimated at 10.73%. If the FF&E is subject to personal property tax, the personal property tax rate is factored into the rate of return in the same manner that the real property tax rate is combined with the overall rate. In the subject's jurisdiction, FF&E is not assessed or taxed. The return on personal property is calculated as follows:

$$\begin{array}{rcll} \text{Number of rooms} & \times & \text{Value of existing FF\&E} & = \text{Total value} \\ 250 & \times & \$15,000 & = \$3,750,000 \\ \text{Rate of return and personal property taxes} & & & \underline{.1073} \\ \text{Return on personal property} & & & \$ 403,000 \text{ (rounded)} \end{array}$$

The total income attributed to personal property is the combination of the return of and the return on personal property.

$$\begin{array}{rcl} \text{Return of personal property} & & \$537,000 \\ \text{Return on personal property} & & 403,000 \\ \hline \text{Income attributed to personal property} & & \$940,000 \end{array}$$

Deducting the income attributed to the business and the income attributed to personal property from the stabilized net income before real estate taxes results in the income attributed to the real property components of land and improvements.

Stabilized net income before real estate taxes	\$6,217,000
Less:	
Income attributed to the business	893,000
Income attributed to personal property	940,000
Stabilized net income attributed to real property	\$4,384,000

To estimate total property value using the income capitalization approach, the stabilized net income attributed to the real property, which is calculated before real estate taxes, is divided by the before-tax overall rate.

Stabilized net income attributed to real property	=	\$4,384,000	=	\$36,351,575
Before-tax overall rate		.1206		
Market value of real property				\$36,350,000 (rounded)

Proof of Value

The value of the real property can be proven by deducting the real and personal property taxes from the stabilized net income before real estate taxes and then applying an overall rate without the tax adjustment to verify the value of the real property component.

Market value of real property	\$36,350,000
Assessment ratio	.4472
Assessed value	\$16,256,000
Tax rate	.02978
Real estate taxes	\$ 484,000
Stabilized net income attributed to real property	\$ 4,384,000
Less: Real estate taxes	484,000
Stabilized net income	\$ 3,900,000
<u>3,900,000</u>	= \$36,346,691
.1073	
	\$36,350,000 (rounded)

Assuming the market value of the real property is \$36,350,000, the calculation shows that the assessed value would be \$16,256,000 and the real estate taxes would be to \$484,000. Deducting the tax burden from the stabilized net income attributed to the real property produces a stabilized net income of \$3,900,000. The market value is verified when the stabilized net income is capitalized at the after-tax overall rate of .1073. Since the assessed value of the hotel is currently \$16,183,500, it appears that the subject property is fairly assessed.

Allocation of Value

The allocation of value is an interesting exercise that shows the relative values of a hotel's components. The following calculation shows that the combined values of the subject's four components equal the total property value.

Stabilized net income before real estate taxes	\$ 6,217,000
Less:	
Return of personal property	537,000
Real estate taxes	484,000
Net income attributed to total property	\$ 5,196,000
<u>\$5,196,000</u> .1073	= \$48,424,976
Total property value	\$48,425,000 (rounded)

Calculation of the total property value begins with the stabilized net income before real estate taxes. The first deduction is for the return of personal property, which represents the reserve for replacement normally included in all hotel appraisals. Real estate taxes are then deducted, leaving the net income attributed to the total property. This amount includes the income attributed to the real property components and the income of the business and personal property components. The value of the total property is calculated by dividing the net income attributed to the total property by the after-tax overall rate of .1073.

Table C.S.6.2 shows the allocation of the total property value

TABLE C.S.6.2 ALLOCATION OF VALUE

Component	Unrounded Component Value	% of Total Property Value
Real property	\$36,350,000	75%
Personal property	3,750,000	8
Business	8,325,000*	17
Total property	\$48,425,000	100%

* \$48,425,000 - \$36,350,000 - \$3,750,000 = \$8,325,000

Land and improvements comprise 75% of the subject's total property value; personal property and business value represent 8% and 17% of this value, respectively.

These procedures for valuing a hotel's real property components reflect current hotel investment structures in which management contracts are prevalent and many hospitality owners assume passive positions and employ management companies to handle the day-to-day business activities of the hotel. Fifty to 75 years ago it was common for a hotel company to lease a lodging facility from a landlord and pay rent for its use. Often the company furnished and equipped the hotel, so the rental payment excluded income attributed to the personal property and actually represented pure income to the real estate. When these leases were used, the valuation of hotels for assessment purposes was much simpler because the value of the real property could easily be determined from the capitalized value of the stabilized rental payments.

Under the older investment structure, the landlord owned the land and improvements and was responsible for paying real estate taxes, while the tenant owned the personal property and paid all operating expenses. Table C.S.6.3 reflects an economic rental formula for a leasehold position in a hotel that might have been used 75 years ago.

TABLE C.S.6.3 ECONOMIC RENTAL FORMULA

Source of Revenue	Rental Based on Percentage of Revenue
Rooms	25%
Food	5
Beverage	10
Other income	20

Using these percentages and the forecasted stabilized revenues shown in Table C.S.6.1 an estimate of stabilized economic rent could be calculated. (See Table C.S.6.4.)

TABLE C.S.6.4 STABILIZED ECONOMIC RENT

	Stabilized Revenue		Percentage Rent		Stabilized Rent
Rooms	\$10,186,000	×	.25	=	\$2,546,500
Food	5,008,000	×	.05	=	250,400
Beverage	1,803,000	×	.10	=	180,300
Other	479,000	×	.20	=	95,800
Total	\$17,476,000				\$3,073,000

In this situation a leased fee capitalization rate of 8.45% would be appropriate to reflect the lower risk and less management involvement inherent in this investment structure. A fee capitalization rate of 10.73% was used previously. Assuming a long-term lease is used, the value of the leased fee representing the land and improvements can be estimated by capitalizing the total stabilized rent by the overall rate.

$$\frac{\$3,073,000}{.0845} = \$36,366,860$$

$$\text{Market value of real property} = \$36,350,000 \text{ (rounded)}$$

Obviously, the leased fee procedure just described is far simpler than the methods demonstrated earlier which use net income forecasts, management fees, and FF&E deductions. Unfortunately, entire hotels (land and improvements) are seldom leased these days and use of an economic rental formula and leased fee capitalization rate cannot be justified. More importantly, current hotel buyers are not purchasing properties based on this leased fee valuation procedure, so an appraiser using this method would not be reflecting the market.

Inventories and Working Capital

In most instances inventories and working capital are not included in an estimate of a lodging facility's market value. At the time of closing, any inventory on hand is normally "purchased" by the buyer on a dollar-for-dollar basis, just as fuel oil, taxes, and insurance are adjusted. Working capital is withdrawn by the seller and replaced by the buyer. This process is repeated when the property changes hands again, and the result is full recovery of all monies invested in working capital.

If an appraiser wishes to include inventories and working capital in the property value, an appropriate amount must be added to the capitalized net income.

Estimating Hotel Land Values

Hotel appraisers are sometimes asked to estimate the value of a total property and then calculate a separate land value. To calculate land value the appraiser investigates the market to find recent transfers of vacant parcels with similar acreage, street frontage, location, and zoning. Any differences between the comparable property and the subject are then adjusted on a grid. In practice, this process can be difficult due to the lack of sufficiently comparable vacant land sales data and the complexity of estimating the necessary adjustments. An alternative approach is the comparable ground lease method, based on the premise that the value of land is tied directly to its capacity to generate income at its highest and best use.

Each year a number of hotel transactions are structured using ground leases. Typical rental terms vary from simple, flat payments with escalation adjustments to formulas based entirely on gross revenues. To quantify the income attributed to the land alone, the net rental using a percentage of gross revenue is the logical choice.

CASE STUDY

Land Value Estimation

In the following example the comparable ground lease procedure is used to estimate the land value of the Sheraton in its third year of operation. The following data are given:

Projected rooms revenue	\$10,186,000
Projected food revenue	\$5,008,000
Projected beverage revenue	\$1,803,000

Ground leases for eight motor hotels similar to the subject were found; their rental formulas are set forth in Table C.S.6.5. The estimated ground rental for the subject is calculated using the comparable formulas and the subject's projected revenues.

TABLE C.S.6.5 HOTEL RENTAL FORMULAS

Comparable Number	Percentage of Gross			Estimated Ground Rental
	Rooms Revenue	Food Revenue	Beverage Revenue	
1	3%	1%	1%	\$373,690
2	3	—	—	305,580
3	7	—	—	713,020
4	4	2	—	507,600
5	2	1	1	271,830
6	5	—	3	563,390
7	4	1	1	475,550
8	5	—	—	509,300
*Average estimated ground rental				\$464,995

*Please note that in evaluating data, averaging is not appropriate unless the data are similar and homogeneous, such as the ground rentals set forth above. When information from dissimilar sources is used, the appraiser should select data that are most comparable to the characteristics of the subject property.

THE STATE OF SOUTH CAROLINA

IN THE COURT OF APPEALS

APPEAL FROM THE ADMINISTRATIVE LAW COURT

John D. McLeod, Administrative Law Judge

ALC Case No. 11-ALJ-17-0299-CC

Appellate Case No.: 2013-002550

Tilbros, Inc.,.....Respondent,

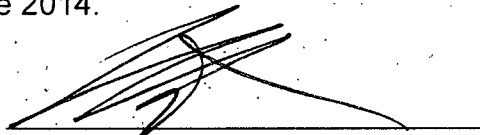
vs

Cherokee County Assessor's Office.....Appellant.

CERTIFICATE OF COUNSEL

The undersigned certifies that the Record on Appeal contains all material proposed to be included by any of the parties and not any other material.

Dated this 17th day of June 2014.



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JUN 30 2014

SC Court of Appeals

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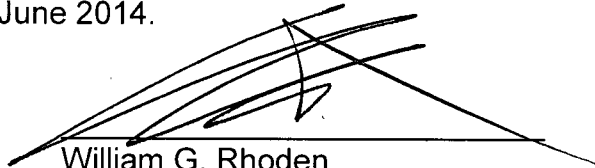
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Appellant.

PROOF OF SERVICE

I, William G. Rhoden, Esquire, Counsel for Appellant in the above
referenced matter, certify that I have served the within **Record on Appeal Volume 1
and Volume 2, Final Brief and Final Reply Brief** by depositing a copy of same in the
United States Mail, postage prepaid, addressed as follows:

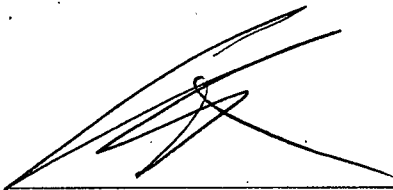
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Dated this 26th day of June 2014.

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