



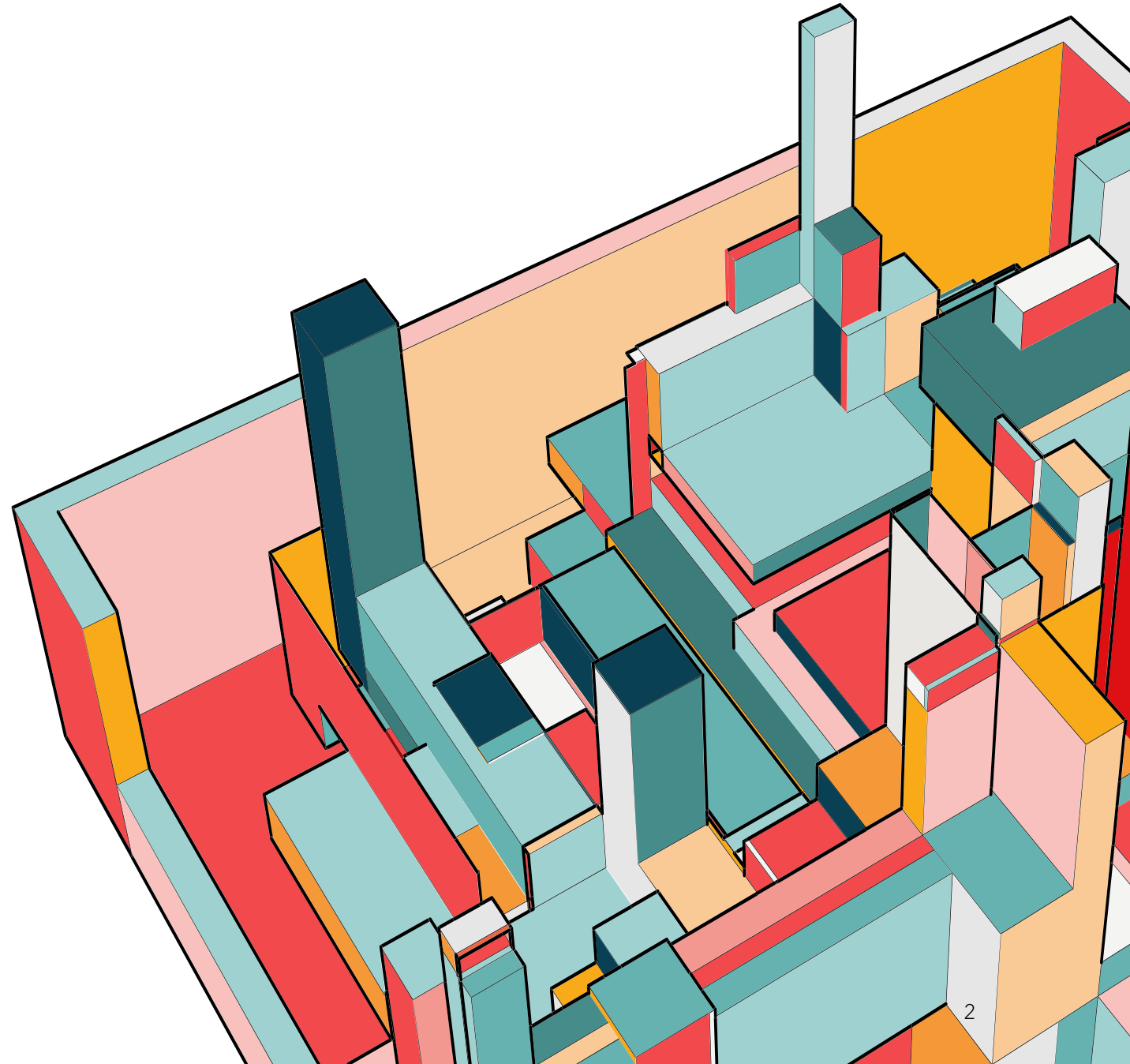
PTAD HOTEL VALUATION

Clay Potter - Supervisor, PTAD
Commercial/BPP

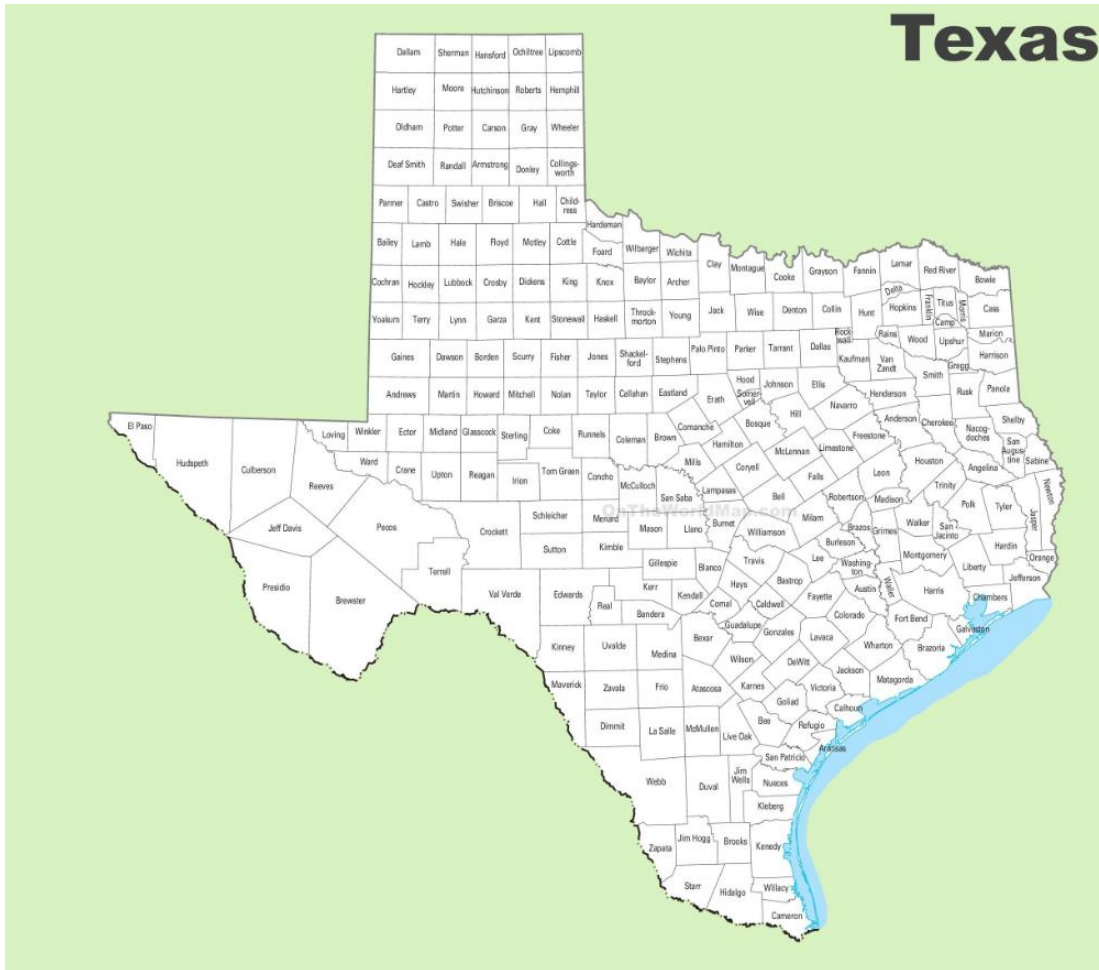
Ashley Watts - Team Lead, PTAD
Commercial/BPP

TOPICS

- Texas hotel facts
- Significance of the property type to the PVS
- PTAD sources for data
- Methodology utilized by PTAD
- Business Enterprise Adjustments
- Confirming the Value
- Business Personal Property



Texas Facts



- 254 Counties
- 268,596 Square Miles
- 25 Metropolitan Areas
 - 2 that rank among the top 10 in the U.S.
- More than 1,200 incorporated cities
 - Ranging in size from Houston, with more than 2.3 million residents, to over 400 towns with populations of fewer than 1,000.

One size fits all?

TEXAS HOTELS

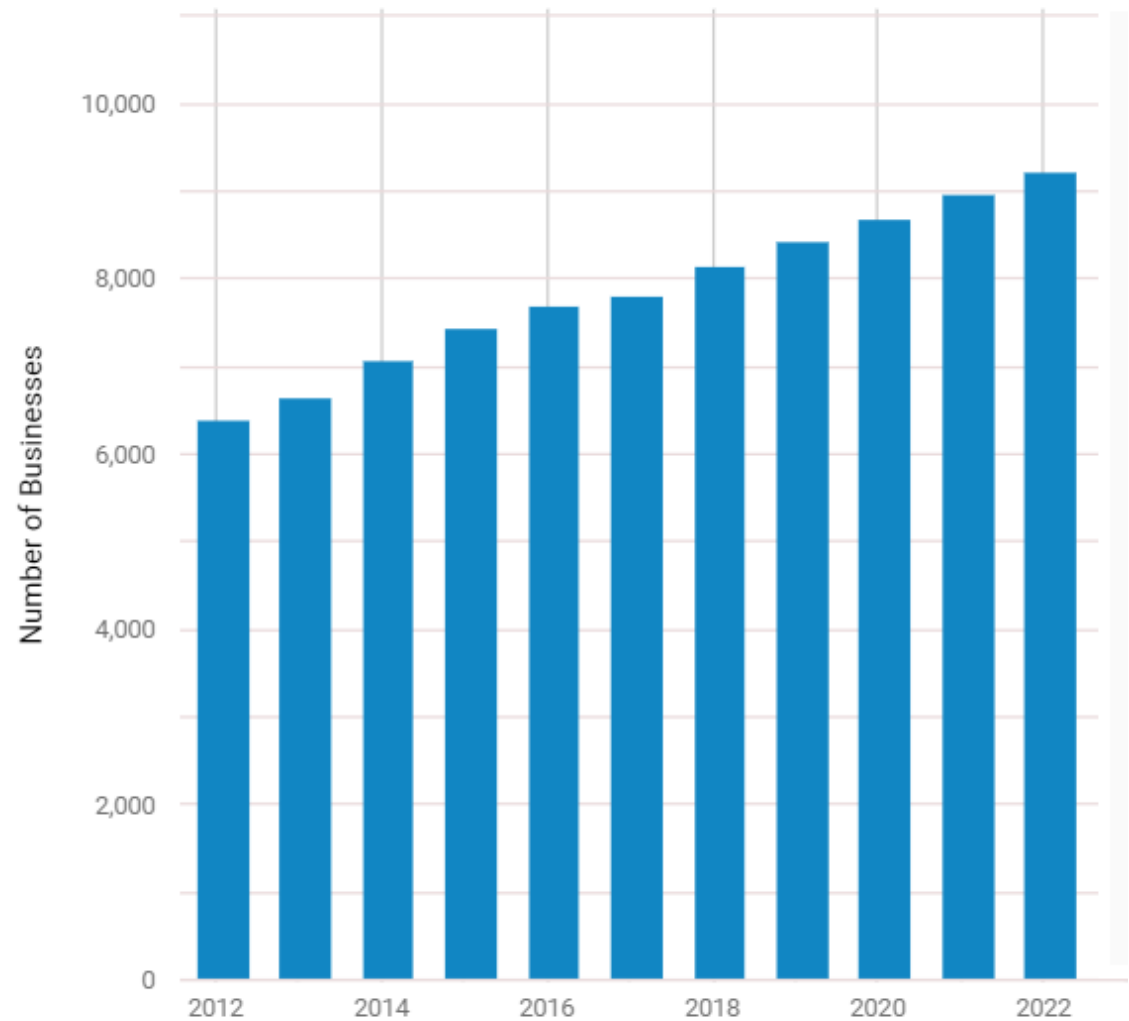
9,221

Hotels in Texas for 2022

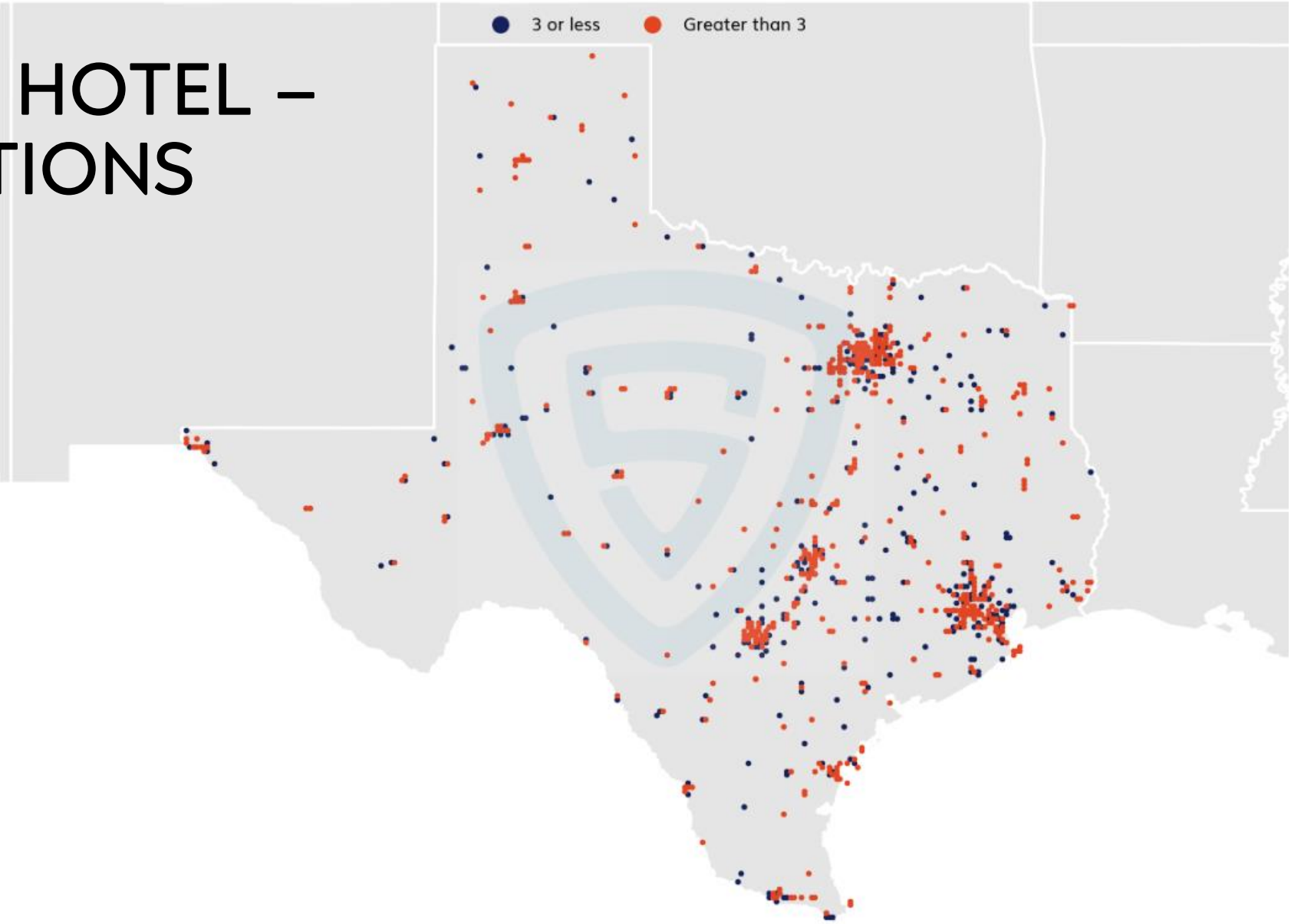
6,674

Hotels in Texas with revenues
greater than \$36,000 per quarter.
(2021)

Number of Hotels in Texas
2012 - 2022



TEXAS HOTEL – LOCATIONS





Top Hotels in Texas, USA

Each grid point covers 2-mile radius with at least one location

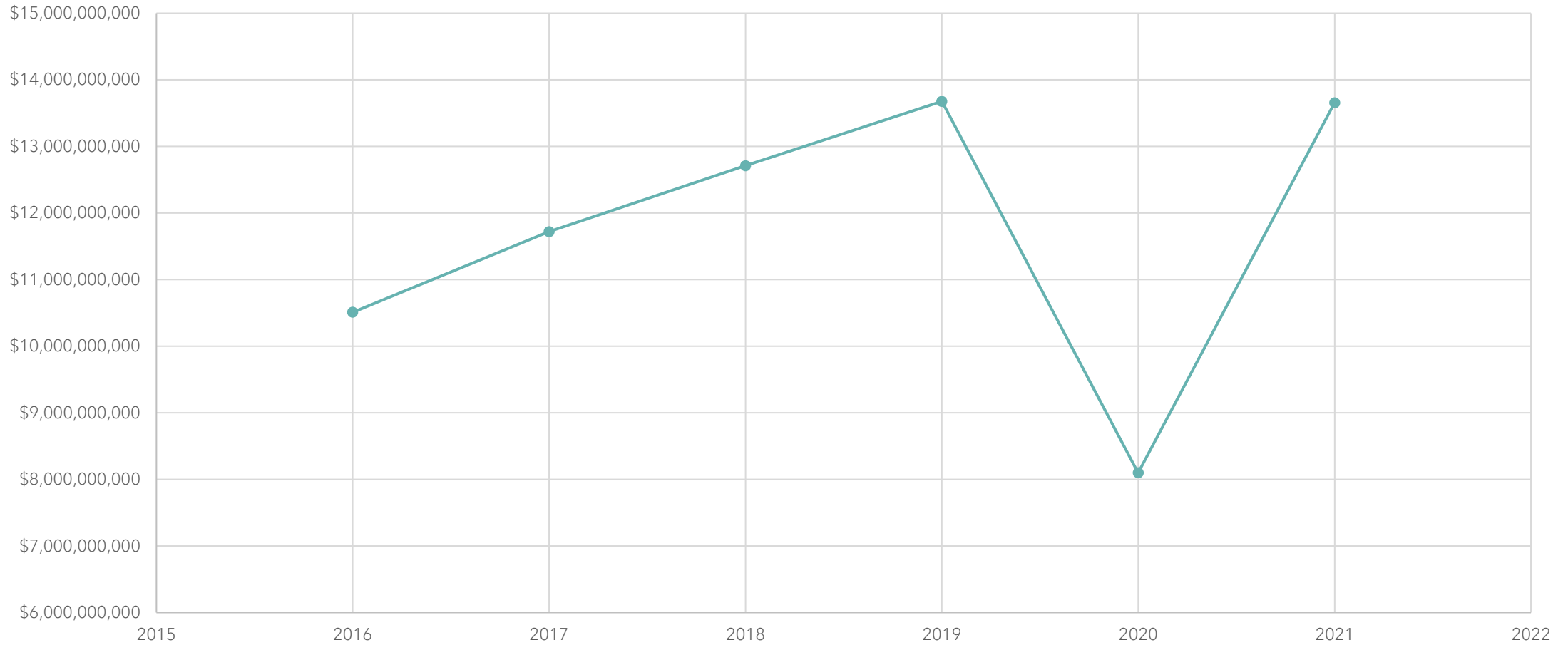
Source: ScrapeHero.com

TEXAS HOTELS – BY BRAND

Rank	Brand	Number of Locations in Texas	Cities Present In
#1	 Wyndham Group Hotels and Resorts	689	229
#2	 Marriott Group Hotels & Resorts	598	121
#3	 Hilton Group Hotels & Resorts	553	166
#4	 IHG Group Hotels & Resorts	487	206
#5	 Choice International Group Hotels	464	192
#6	 Best Western Group Hotels & Resorts	275	205
#7	 Holiday Inn Express	274	195
#8	 La Quinta	243	152
#9	 Hampton	205	146
#10	 Super 8	153	111

TEXAS HOTEL REVENUE

Per Year
2016 - 2021

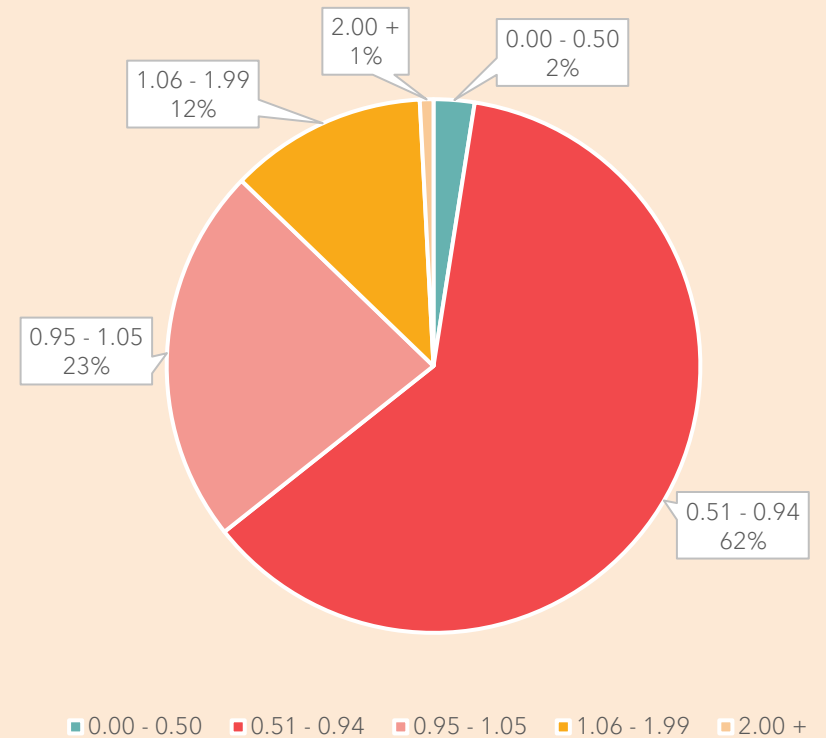
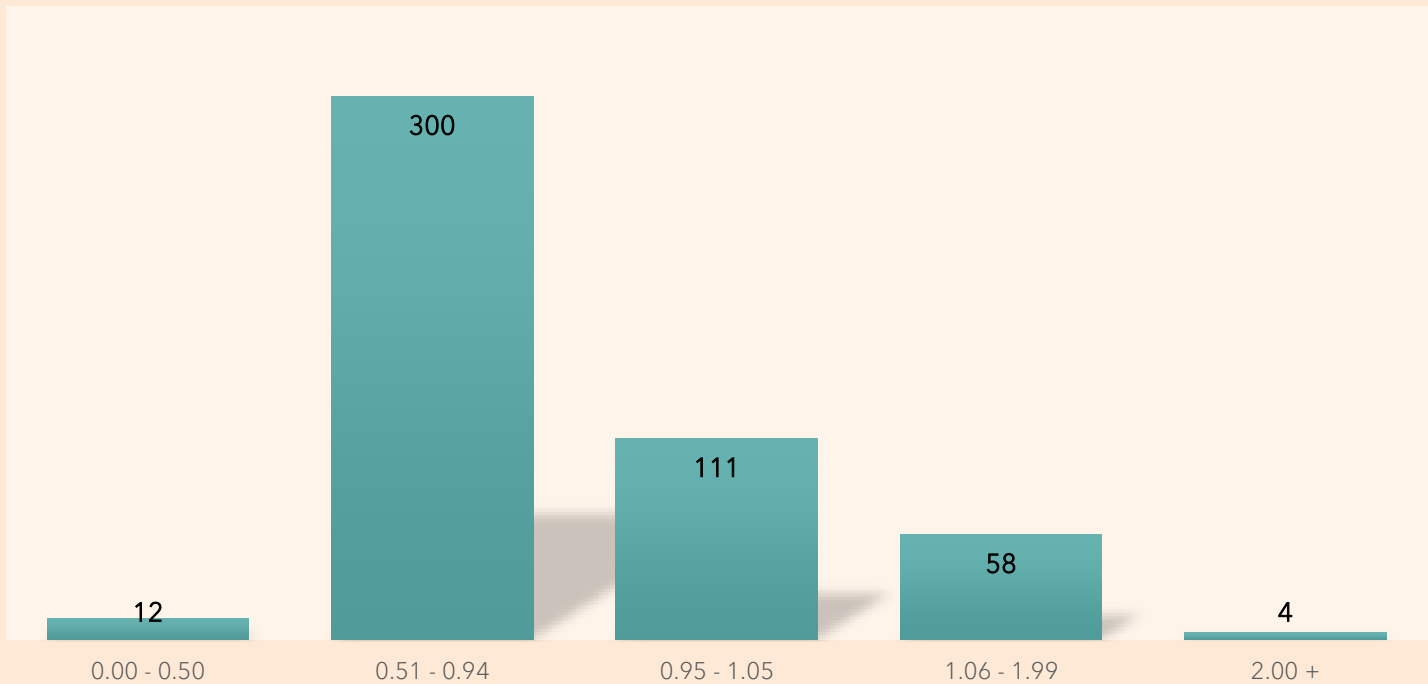


HOTELS BY THE NUMBERS

2020 PROPERTY VALUE STUDY

485 hotels
Ratio Range – 0.22 to 2.94
4% of all PTAD appraisals

2020 PVS - Hotel Ratios

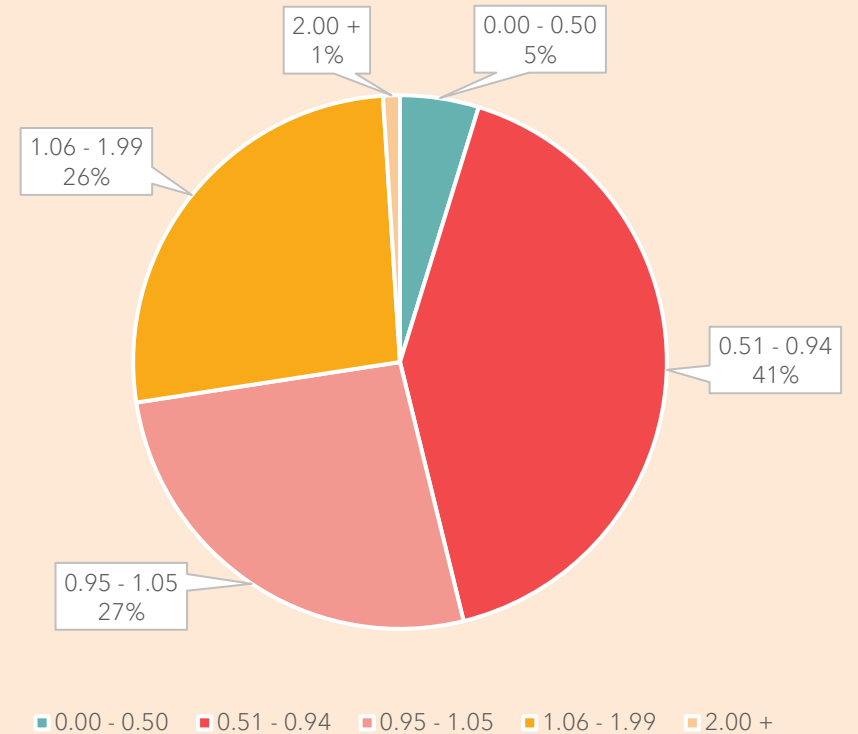
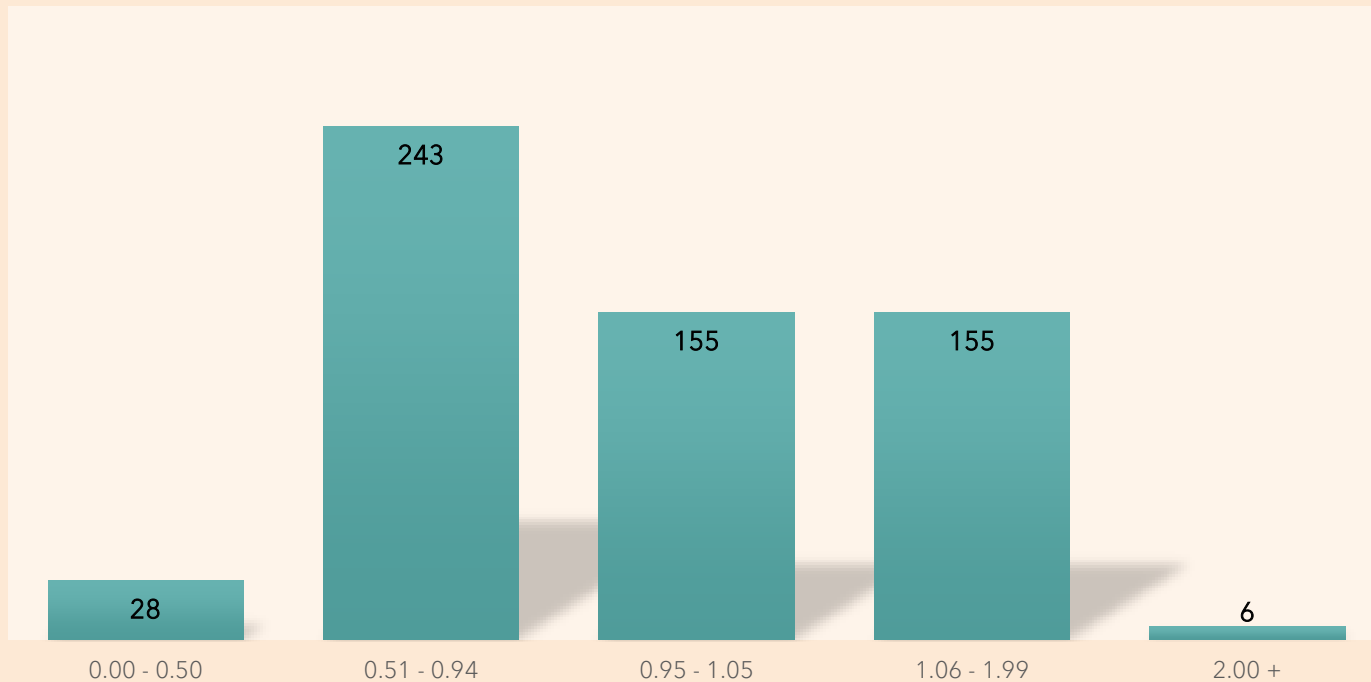


HOTELS BY THE NUMBERS

2021 PROPERTY VALUE STUDY

587 hotels
Ratio Range – 0.16 to 3.25
4% of all PTAD appraisals

2021 PVS - Hotel Ratios



PTAD DATA SOURCES

Income & Expense Data

- Hotel Factbook
- CPA Hotel Receipts
 - Costar
 - Trepp

Sales & Cap Rate Data

- Costar
- Trepp

Business Enterprise & Other Misc. Data

- Hotel Valuation Services
- Online Publications

PTAD APPRAISAL PROCESS



RESEARCH

Market research is performed to determine appropriate income and expense assumptions.



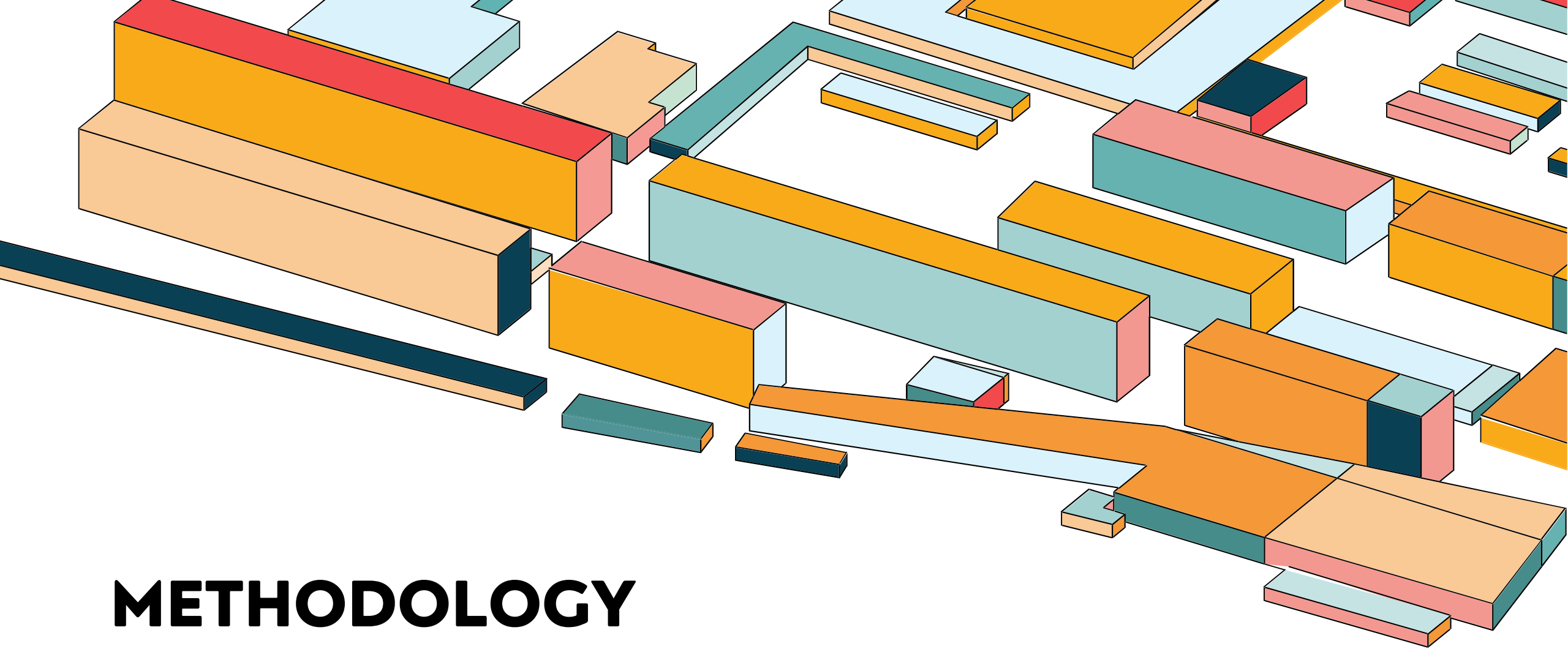
INSPECT

Physical inspections are performed on randomly-selected properties.



DATA ENTRY

The appraisal is entered into the CAMA system. Necessary adjustments are applied and the value confirmed.



METHODOLOGY

PTAD uses direct capitalization with an allowance for business enterprise value. (BEV)

WHAT IS BEV?

Short Answer

Business Enterprise Value, also known as BEV, refers to the value of a business.

Definition

“A term applied to the concept of the value contribution of the total intangible assets of a continuing business enterprise such as marketing and management skill, an assembled work force, working capital, trade names, franchises, patents, trademarks, contracts, leases, and operating agreements.”

Source: Appraisal Institute, *The Dictionary of Real Estate Appraisal*, 5th ed. (Chicago: Appraisal Institute, 2010).



ESTIMATING THE BEV

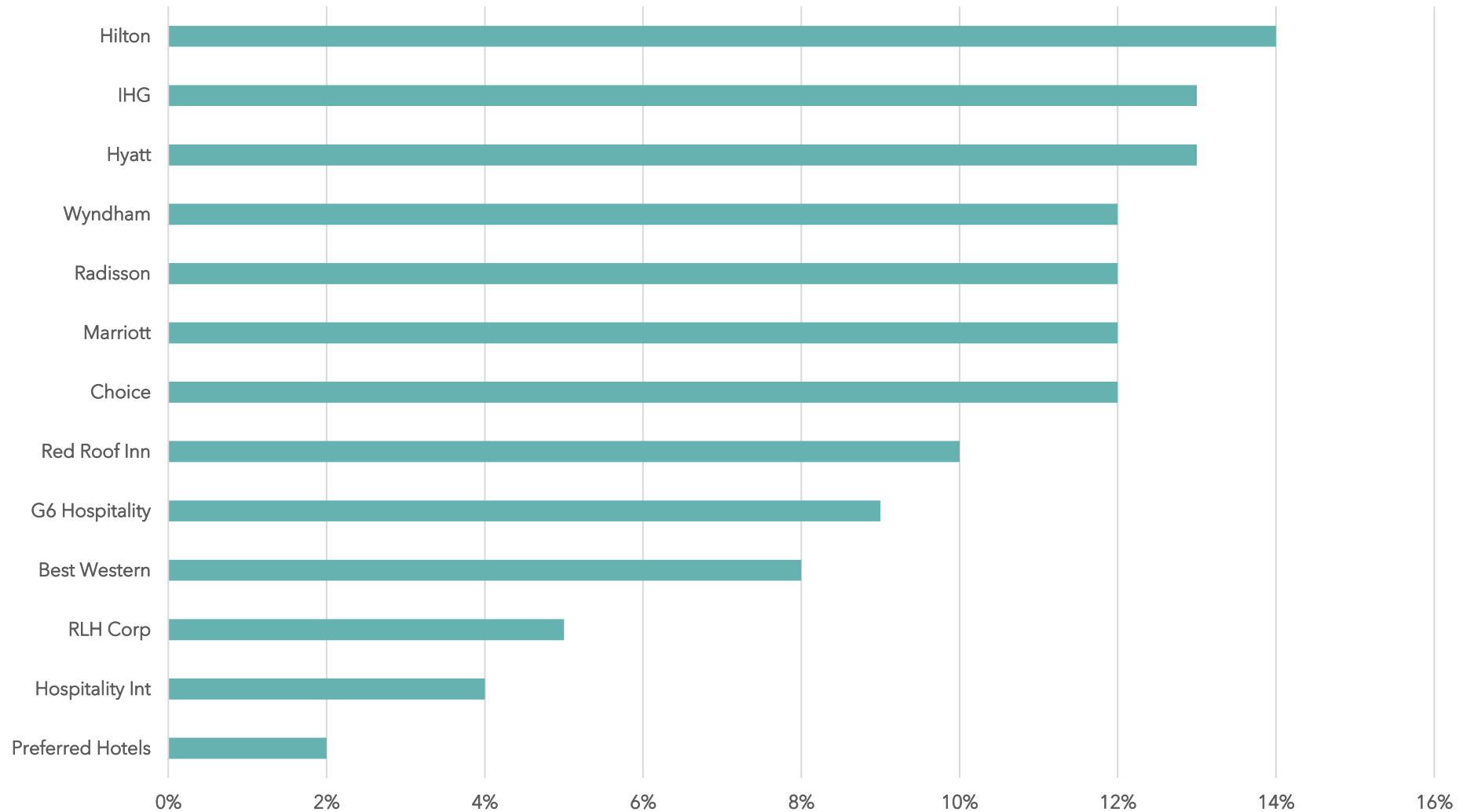
PTAD researches franchise fees and other associated costs to determine the appropriate adjustment for business enterprise value.

PTAD has determined that the BEV can be best estimated based on the hotel brand.

Sources utilized by PTAD for BEV research:
Hotel Valuation Services
Trepp Financial Data



PTAD SUGGESTED BEV ADJUSTMENTS – BY BRAND



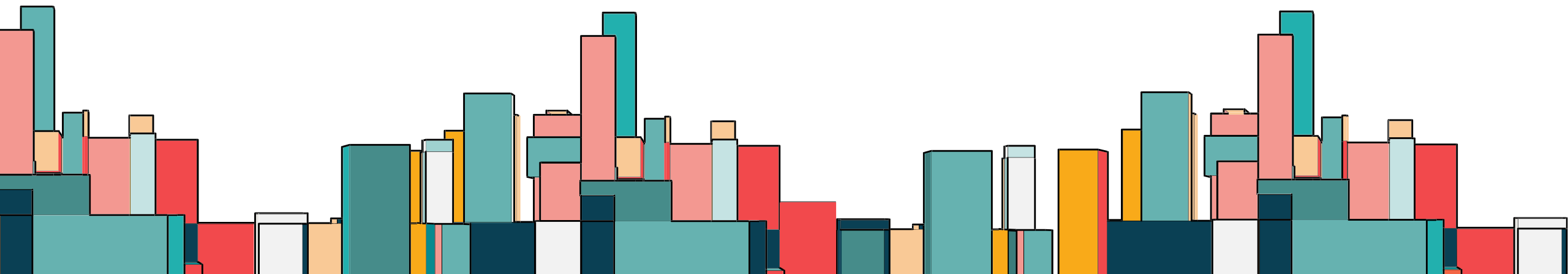
WHERE TO ADJUST?

There are different schools of thought as to where to adjust the BEV.

The two main methods that appraisers use are:

- Add the BEV adjustment to the expense rate
- Apply the BEV adjustment to the final income value

*PTAD uses the second method and adjusts the BEV out at the end of the appraisal.



WHY DOES IT MATTER?

Example 1 - Adjusting BEV as an Expense

Total Income

Business Name/DBA	MOTEL 6		
Potential Gross Income	\$881,366		
Vacancy %	46.10		
Expected Gross Rent	\$475,056		
Ancillary Income %			
Ancillary Income	\$0		
Effective Gross Income	\$475,056		
Total Net Rentable Area	0		
Expense %	69	← 9% BEV Added as Expense (60% + 9% BEV)	
Expenses	\$327,789		
Net Operating Income	\$147,267		
Cap Rate %	9.00		
Eff. Tax Rate %	2.817		
Effective Cap Rate	11.817		
Direct Cap Value	\$1,246,233	Income Adjustment	\$0
Disc. Cash Flow Value	\$0	Income Adjustment	\$0

Value Reconciliation

Adjusted Direct Cap Value	\$1,246,233	← Final Market Value	<input checked="" type="checkbox"/> Use Direct Cap
Adjusted DCF Value	\$0		<input type="checkbox"/> Use DCF
Override Value			<input type="checkbox"/> Use Override
Override Reason			

WHY DOES IT MATTER?

Example 2 - Adjusting out BEV at the end

Total Income

Business Name/DBA	MOTEL 6	X
Potential Gross Income	\$881,366	
Vacancy %	46.10	
Expected Gross Rent	\$475,056	
Ancillary Income %		
Ancillary Income	\$0	
Effective Gross Income	\$475,056	
Total Net Rentable Area	0	
Expense %	60	
Expenses	\$285,034	
Net Operating Income	\$190,022	
Cap Rate %	9.00	
Eff. Tax Rate %	2.817	
Effective Cap Rate	11.817	
Direct Cap Value	\$1,608,043	
Disc. Cash Flow Value	\$0	
Value Reconciliation		
Adjusted Direct Cap Value	\$1,463,319	<input checked="" type="checkbox"/> Use Direct Cap
Adjusted DCF Value	\$0	<input type="checkbox"/> Use DCF
Override Value		<input type="checkbox"/> Use Override
Override Reason		

Value Before Adjustment

Final Market Value

9% BEV Adjustment

Income Adjustment \$144,724

Income Adjustment \$0

WHY DOES IT MATTER?

1

Adjusting as
Expense

Final Value:
\$1,246,233

2

Adjusting at End

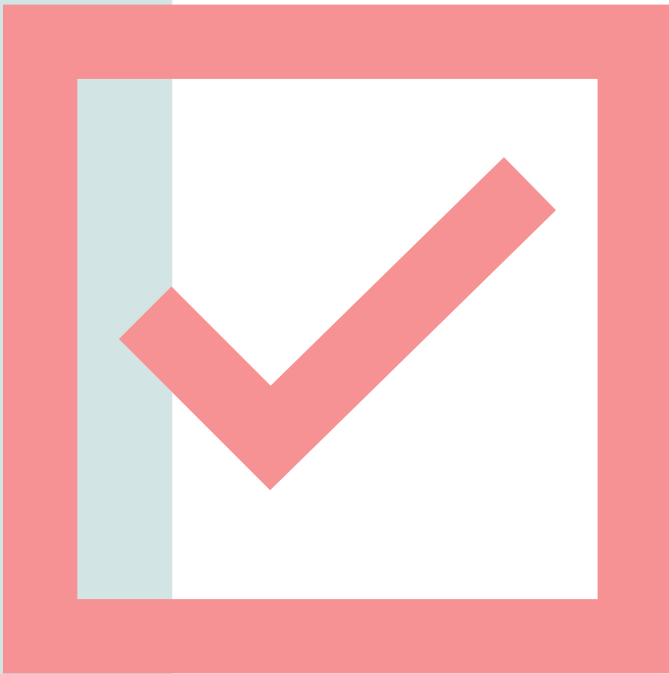
Final Value:
\$1,462,319

3

Value Difference

17%

Confirming the Value Using the EGIM



Using researched sales and income data, PTAD utilizes the EGIM method to confirm hotel values.

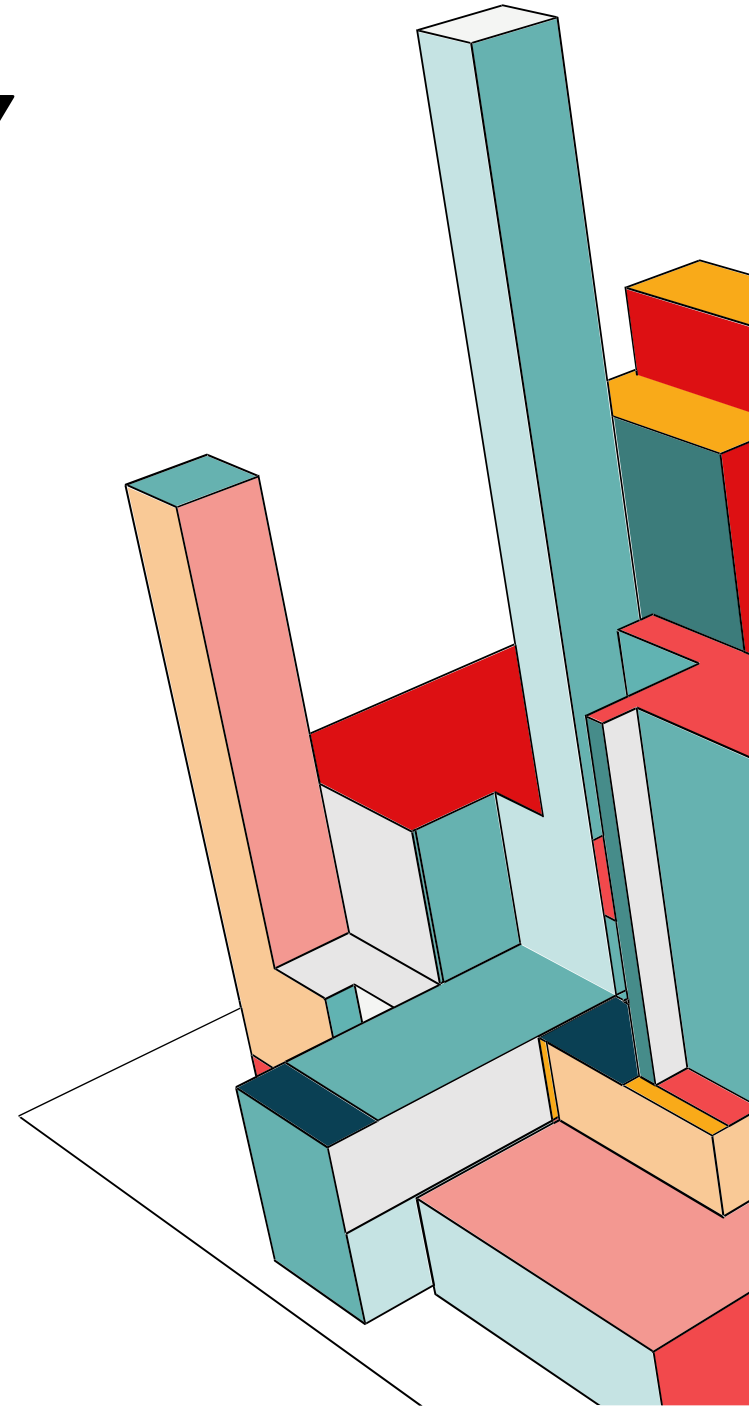
BUSINESS PERSONAL PROPERTY

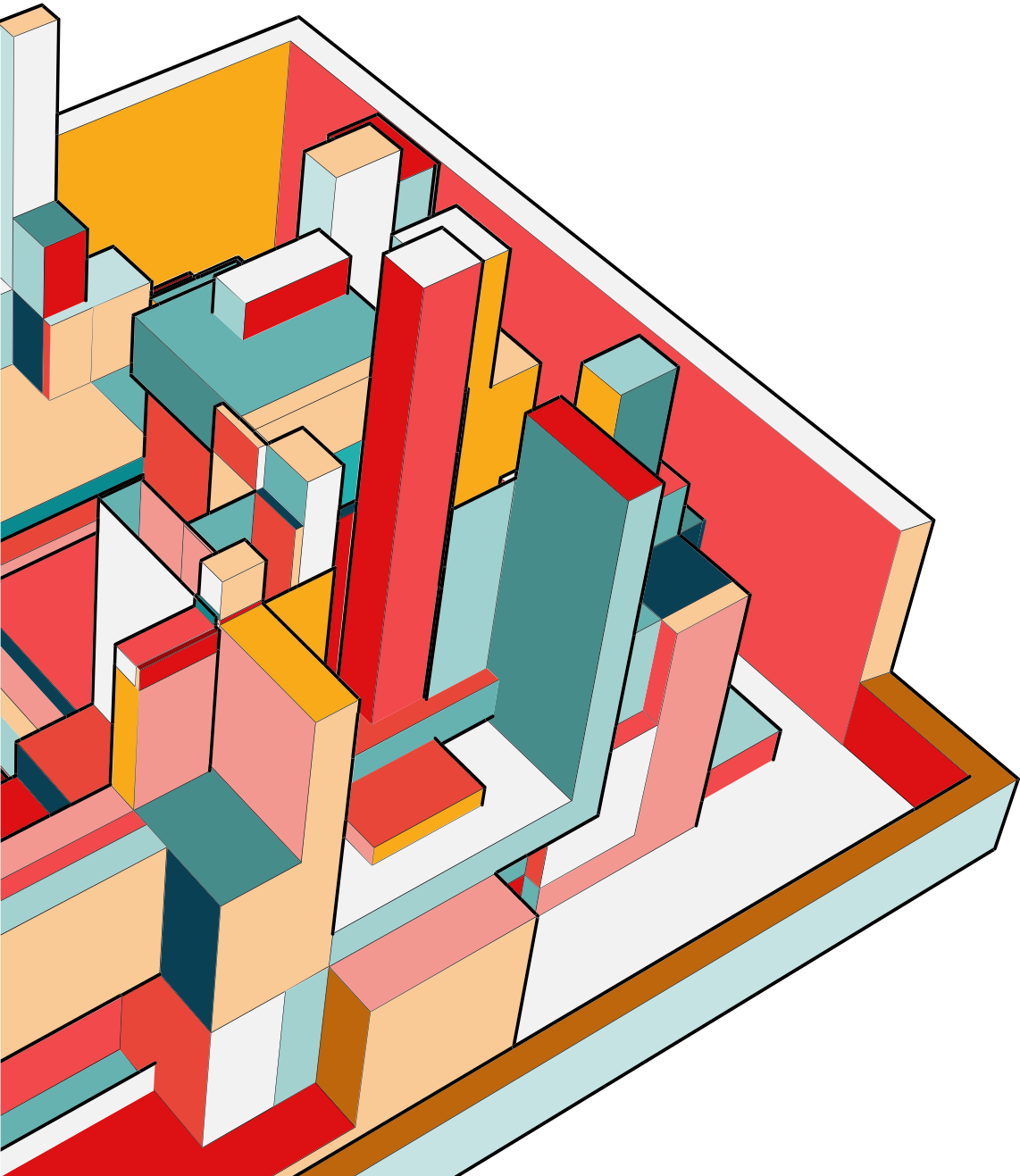
Since the income approach encompasses the entire property, CADs are required to value the business personal property account together with the real estate when using the income approach.

Some Appraisal Districts utilize the cost approach for hotels.

When the cost approach is utilized by the CAD, PTAD adjusts for the business personal property account.

An adjustment is applied using the Mixed-Use/Multi-Parcel worksheet to allocate the value and account for the business personal property account.





SUMMARY

Hotels are a significant property type utilized in the Property Value Study. With the growth of the hotel industry in Texas, this trend will likely continue in future years. Having an understanding of the methodology and processes utilized by PTAD in valuing hotels should prove beneficial to Appraisal Districts.

THANK YOU

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