Mass Appraisals May Lead to High Taxes - By Mark Hutcheson

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Every year, most assessors across the nation face the daunting task of determining market value for every property in their jurisdiction. By virtue of necessity, they are required to use ’mass appraisal’ techniques to value thousands of properties within a very short time frame.

When these mass appraisal short-cuts are used to value hotels, however, the results often yield widely inaccurate valuations for property tax purposes.

Wide-spread agreement exists within the appraisal industry that determining the tangible (taxable) value of a hotel is one of the most difficult tasks. The best minds in the appraisal community differ greatly on the proper way to segregate non-taxable intangibles in hotel valuations.

Rather than struggle between competing appraisal theories, many assessors have resorted to overly simplistic, short-cut techniques that provide a quick conclusion of value. Some of these methods include:

1. Capitalizing the trailing 12-months net income, but subtracting management and franchise fees as expenses.

2. Capitalizing net income and subtracting a percentage, usually between 20% and 30%, for ’business value.’

3. Applying a standard gross room revenue multiplier (GRRM) for each hotel type.

4. And, most simplistically, taking the year-end RevPar multiplied by 1,000, multiplied by the room count.

If these approaches yield a proper assessment, it is just by coincidence. Applying a standard adjustment for business value or a GRRM may yield acceptable values. But, an owner who accepts this kind of short-cut method in one year may face totally unacceptable values in future years when market conditions change.

Hotel owners and managers should resist attempts by the taxing authority to use short-cut methods to derive their valuation for property tax purposes. This calls for owners to perform an independent analysis every year by using market income, adjusting for the return on and of start-up costs and business personal property and employing appropriately determined capitalization rates. Such an analysis provides owners with the necessary data to begin discussions with the assessor for more accurate and equitable tax assessments on their hotels.

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