



VALUE ALLOCATIONS IN LODGING FACILITIES

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Business Enterprise Value

- 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: Dictionary of Real Estate Appraisal 5th Edition 2010

Going Concern Value

- ① 1. “A business having the ability to continue functioning as a business entity in the future. In accounting, a business is considered to be a going concern if it is likely to continue functioning 12 months into the future.”

- ① Source: Dictionary of Real Estate Appraisal 5th Edition 2010

Going Concern Value

1. “The entity is normally viewed as a going concern, that is, as continuing in operation for the foreseeable future. It is assumed that the entity has neither the intention nor the necessity of liquidation or of curtailing materially the scale of its operations. (IAS Framework 23; IAS 1, 23-24)
An operating business. Going concern also serves as a valuation premise, under which Valuers and accountants consider a business as an established entity that will continue in operation indefinitely. The premise of a going concern serves as an alternative to the premise of liquidation.”
2. Source: Dictionary of Real Estate Appraisal 5th Edition 2010

Going Concern Value

- 3. “The value of a business enterprise that is expected to continue to operate into the future. The intangible elements of Going Concern Value result from factors such as having a trained work force, an operational plant, and the necessary licenses, systems, and procedures in place.”

- Source: Dictionary of Real Estate Appraisal 5th Edition 2010

Competency

- ① 1. Knowledge
- ② 2. Understanding
- ③ 3. Logical Process
- ④ 4. Credible

	Business Enterprise Approach		Rushmore Method	
Number of Rooms		221		221
Occupancy		81.0%		81.0%
Average Room Rate (ADR)		\$128.10		\$128.10
Revenue				
Rooms	\$8,369,881	68.5%	\$8,369,881	68.5%
Food & Beverage	\$3,347,952	27.4%	\$3,347,952	27.4%
Telecommunications	\$259,466	2.1%	\$259,466	2.1%
Other	<u>\$234,357</u>	<u>1.9%</u>	<u>\$234,357</u>	<u>1.9%</u>
Total Revenue	\$12,211,656	100.0%	\$12,211,656	100.0%
Departmental Expenses				
Rooms	\$2,176,169	26.0%	\$2,176,169	26.0%
Food & Beverage	\$2,678,362	80.0%	\$2,678,362	80.0%
Telecommunications	\$168,653	65.0%	\$168,653	65.0%
Other	<u>\$199,203</u>	<u>85.0%</u>	<u>\$199,203</u>	<u>85.0%</u>
Total Departmental Expenses	\$5,222,387	42.8%	\$5,222,387	42.8%
Departmental Profit	\$6,989,269	57.2%	\$6,989,269	57.2%
Undistributed Expenses				
General & Administrative	\$1,221,166	10.0%	\$1,221,166	10.0%
Operations & Maintenance	\$793,758	6.5%	\$793,758	6.5%
Utilities	\$488,466	4.0%	\$488,466	4.0%
Marketing	<u>\$781,546</u>	<u>6.4%</u>	<u>\$781,546</u>	<u>6.4%</u>
Total Undistributed Expenses	\$3,284,935	26.9%	\$3,284,935	26.9%
Gross House Profit	\$3,704,334	30.3%	\$3,704,334	30.3%
Fixed Expenses				
Insurance	\$175,000	1.4%	\$175,000	1.4%
Equipment Rental	<u>\$65,000</u>	<u>0.5%</u>	<u>\$65,000</u>	<u>0.5%</u>
Total Fixed Expenses	\$240,000	2.0%	\$240,000	2.0%
Net Income Before Business and Personal Property Deductions	\$3,464,334	28.4%	\$3,464,334	28.4%

	Business Enterprise Approach		Rushmore Method	
Base Management Fee	\$366,350	3.0%	\$366,350	3.0%
Incentive Management Fee	\$235,480	1.9%	\$235,480	1.9%
Business Start-up Cost	\$337,919	2.8%	\$0	0.0%
Residual Intangibles	<u>\$337,788</u>	2.8%	<u>\$0</u>	0.0%
	\$1,277,537		\$601,830	

Two Procedures for Computing Personal Property in Place

Assumptions

Net Income	\$1,000,000
Capitalization Rate	12.5%
Total Property Value	\$8,000,000
Value of FF&E in Place	\$750,000

Procedure 1

Value of FF&E in Place	\$750,000
Capitalization Rate	12.5%
Income Attributed to FF&E	\$93,750

Net Income	\$1,000,000
Less: Income Attributed to FF&E	\$93,750
Net Income without FF&E in Place	\$906,250
Capitalization Rate	12.5%
Property Value without FF&E in Place	\$7,250,000

Procedure 2

Total Property Value	\$8,000,000
Less: Value of FF&E in Place	\$750,000
Property Value without FF&E in Place	\$7,250,000

Business Enterprise Approach**Rushmore Method**

Reserve for Replacements	\$610,583	5.0%	\$610,583	5.0%
Return on FF&E	<u>\$143,606</u>		<u>\$0</u>	
	\$754,189		\$610,583	

Business Enterprise Approach**Rushmore Method**

Net Income Before Business and Personal Property Deductions	\$3,464,334		\$3,464,334	
Less: Income Attributed to Business	\$1,277,537		\$601,830	
Less: Income Attributed to FF&E	<u>\$754,189</u>		<u>\$610,583</u>	
Income Attributed to Real Property & FF&E	\$1,432,608		\$2,251,921	
Cap Rate Loaded with RE Taxes	0.124122		0.124122	
Value with FF&E in Place	\$11,541,935		\$18,142,804	
Less: FF&E in Place	<u>\$1,511,640</u>		<u>\$1,511,640</u>	
	\$10,030,295.12		\$16,631,163.62	

Difference Between Two Approaches

Business Enterprise Approach

Rushmore Method

Effects on Value for Business Deductions

Base Management Fee	\$366,350	\$366,350	
Incentive Management Fee	\$235,480	\$235,480	
Business Start-up Cost	\$337,919	\$0	
Residual Intangibles	<u>\$337,788</u>	<u>\$0</u>	
Total	\$1,277,537	\$601,830	
Cap Rate Loaded with RE Taxes	0.124122	0.124122	Difference
Effect on Value for Business Deduction	\$10,292,589	\$4,848,695	\$5,443,894

Effects on Value - Personal Property Deduction

Reserve for Replacement	\$610,583	\$610,583	
Return on FF&E	\$143,606	\$0	
Total	\$754,189	\$610,583	
Cap Rate Loaded with RE Taxes	0.124122	0.124122	
Value	\$6,076,190	\$4,919,215	
Plus: FF&E in Place	<u>\$1,511,640</u>	<u>\$1,511,640</u>	Difference
Effect on Value Personal Property Deductions	\$7,587,830	\$6,430,855	\$1,156,975

Total Difference in Value

\$6,600,869

Proof of Value

	Business Enterprise Approach			Rushmore Method		
Net Income Before Business and Personal Property Deduction	\$3,464,334			\$3,464,334		
Cap Rate Loaded with RE Taxes Value	<u>0.124122</u>			<u>0.124122</u>		
	\$27,910,713			\$27,910,713		
			Per Room			
Value - Personal Property Component	\$7,587,830	27%	\$34,334	\$6,430,855	23%	\$29,099
Value - Business Component	\$10,292,589	37%	\$46,573	\$4,848,695	17%	\$21,940
Value - Real Property Component	<u>\$10,030,295</u>	<u>36%</u>	<u>\$45,386</u>	<u>\$16,631,164</u>	<u>60%</u>	<u>\$75,254</u>
Total Property Value	\$27,910,713	100%	\$126,293	\$27,910,713	100%	\$126,293