REPRESENTATIVE FOR PETITIONER: Todd Barron, Barron Corporate Tax Solutions

REPRESENTATIVES FOR RESPONDENT: Marilyn Meighen, Attorney at Law
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Zachary Price, Attorney at Law

BEFORE THE
INDIANA BOARD OF TAX REVIEW

Kinser Group II, LLC,	)	
	)	Petition Nos.: 53-005-21-1-4-00741-21
Petitioner,	)	53-005-20-1-4-00200-21
	)	
v.	)	Parcel No.: 53-05-31-304-003.000-005
	)	
Monroe County Assessor,	)	
	)	Assessment Years: 2020-2021
Respondent.	)	

February 20th, 2024

FINAL DETERMINATION

The Indiana Board of Tax Review ("Board"), having reviewed the facts and evidence, and having considered the issues, now finds and concludes the following:

I. INTRODUCTION

1. In these assessment appeals, we are faced with the difficult task of determining the true tax value of an upper-midscale limited-service hotel, a type of property that almost always sells as a going concern that includes personal- and intangible-property interests along with the real estate. And the valuation dates spanned the first year of a historic global pandemic that impacted demand and values within the lodging market, although the impact varied by market segment. Both sides offered valuation opinions from experienced appraisers: Randall Clemson for the taxpayer, Kinser Group II, LLC, and David Hall for the Monroe County Assessor. We find that Hall was more thorough in his analyses, better explained

his underlying judgments, and in some cases, relied on market data that was more tailored to the market segment. We therefore find that Hall's valuation opinions are the most persuasive evidence of the property's true tax value for each year.

II. PROCEDURAL HISTORY

2. Kinser challenged the 2020 and 2021 assessments of its property by filing Form 130 petitions with the Assessor on June 15, 2020, and June 7, 2021, respectively. The Monroe County Property Tax Assessment Board of Appeals denied Kinser relief and determined the following values, which matched the original assessments:

Year	Land	Improvements	Total
2020	$660,000	$6,831,200	$7,491,200
2021	$660,000	$6,047,600	$6,707,600

3. Kinser responded by filing Form 131 petitions with us. Beginning on April 25, 2023, our designated administrative law judge, David Pardo ("ALJ"), held a three-day hearing on Kinser's petitions. Neither he nor the Board inspected the property. Randall Clemson and David Hall were sworn as witnesses.

4. Kinser offered the following exhibits:

Exhibit 1:	Appraisal by Randall Clemson for 2020
Exhibit 2:	Appraisal by Randall Clemson for 2021
Exhibit 5:	January 15, 2021 Monthly STAR Report
Exhibit 6:	Property record card("PRCs") and property reports for several properties
Exhibit 7:	Aerial photograph of subject property and neighboring properties; spreadsheet with information about the subject property, Fairfield Inn and TownePlace Suites; PRCs for all three properties
Exhibit 8:	Chapter 35 from THE APPRAISAL INSTITUTE, THE APPRAISAL OF REAL ESTATE (14TH ed.)
Exhibit 9:	HVS, "*COVID-19's Impact of Values*" (Nov. 5, 2020); Elaine Sahlins, *The Impact of COVID-19 on Hotel Values,* Cushman & Wakefield (April 15, 2020); PwC, *Hospitality Directions US* (May 2020); Daniel H. Lesser, *COVID-19's Impact on the U.S. Hotel Sale Transaction Market,* BOSTON HOSPITALITY REVIEW
Exhibit 10:	Steven Rushmore, *Why the "Rushmore Approach" is a Better Method for Valuing the Real Property Component of a Hotel*, JOURNAL OF PROPERTY TAX

ASSESSMENT AND ADMINISTRATION Vol. 1, Issue 4 at 15

Exhibit 11: Fair Value Academy, *Step by Step Guide on Discounted Cash Flow Valuation Model*; Aron M. Rotkowski and Matt C. Courtnage, *Estimating Capital Expenditures and Depreciation Expense in the Direct Capitalization Method*, INSIGHTS Winter 2016 at 18

5. The Assessor offered the following exhibits:

Exhibit A: Appraisal by David Hall and Michael Lady for 2020
Exhibit B: Appraisal addenda (2020 and 2021)
Exhibit C: Appraisal by David Hall and Michael Lady for 2021
Exhibit D: Hotel Sale Profile (Hampton Inn, Bloomington, IN)
Exhibit E: Listing for the subject property
Exhibit F: Tommy Crozier, *The COVID Impact on Hotel Values,* CBRE (Nov. 20, 2010)
Exhibit G: Property Improvement Plan for the subject property
Exhibit H: THE APPRAISAL FOUNDATION, *Advisory Opinion 34 (AO-34*), Advisory Opinions (2020-2021 ed.)
Exhibit I: Excerpts from Marshall Valuation Service (2020)
Exhibit J: Excerpts from Marshall Valuation Service (2021)
Exhibit K: IAAO Special Committee on Intangibles, *Understanding Intangible Assets and Real Estate: A Guide for Real Property Valuation Professionals,* (Approved for distribution Nov. 12, 2016)

6. The record also includes the following: (1) all petitions, motions, and other documents filed in these appeals, including the parties' post-hearing briefs; (2) all orders and notices issued by the Board or our ALJ; and (3) the hearing transcript.

III. FINDINGS OF FACT

A. The Subject Property

7. The subject property includes a six-story, 102-room hotel in Bloomington that was built in 2006. It sits on 1.5 acres of land located at 117 Franklin Road, close to an interchange of Interstate 69 and West 3rd Street. It is also easily accessible from State Roads 45 and 46. The hotel is about three miles from Indiana University's campus and about two miles from downtown. It is sandwiched between two Marriott-branded hotels: a Fairfield Inn & Suites to the south and a TownePlace Suites, an extended-stay hotel, to the north. *Ex. 1 at i, 14-16; Ex. A at 53, 55*; *Tr. at 39, 224, 296, 535.*

8. Kinser owns the property, and Tristar Hotel Group, a related entity with common ownership, manages it. The hotel operates under the brand, or "flag," of Holiday Inn Express Hotel & Suites. It is a limited-service hotel that offers breakfast/dining options (but not a full-service restaurant); an indoor pool and whirlpool, fitness and business centers, meeting rooms, and two guest laundries. Of the 102 guest rooms, 32 are suites. As of the assessment dates, there had been no comprehensive renovations to the hotel since it was built. *E.g., Ex. A at 57; Tr. at 116, 282; see also, Ex. G.*

9. Bloomington has several other midscale and upper-midscale limited-service and extended-stay hotels, including the TownePlace Suites and Fairfield Inn & Suites located next to the subject property as well as a Hampton Inn, a Quality Inn, a Comfort Inn, a La Quinta Inn & Suites, and a Home2Suites. The Home2Suites opened in 2018. The La Quinta Inn opened the following year. *Ex. 1 at 43-44; Ex. A at 31; Tr. at 60, 345, 535, 539, 576.*

10. Like the subject property, most upper-midscale limited-service hotels operate under a national flag, often pursuant to a franchise agreement. As a prerequisite to the franchisees maintaining their flags, the brand owners issue property improvement plans ("PIPs") that require the franchisees to periodically renovate and update the hotels' real and personal property. The content of each PIP is brand specific. For example, Holiday Inn Express uses a "Formula Blue" PIP. Even then, not every Formula Blue PIP is the same—they are tailored to the individual property. The frequency with which brands require PIPs also varies. PIPs may be triggered by events like the sale of a hotel or the renewal of a franchise agreement. Some brands schedule periodic inspections that trigger PIPs. As a generalization, an interval of six to ten years between PIPs is typical. *Ex. A at 59*; *Tr. at 35-37, 222, 328.*

11. On January 24, 2020, Holiday Inn Express issued a Formula Blue PIP for the subject property. The PIP was extensive and called for Kinser to renovate various parts of the real estate and to replace much of the furniture and other personal property. Originally, the PIP called for completion by October 31, 2021. But Holiday Inn Express gave Kinser an extension in light of the pandemic. At one point, work was scheduled to begin on January

4, 2023, which was the same date that the existing franchise agreement was set to expire. *Ex. 1 at iii, 25; Ex. 2 at iii, 27; Ex. G.*

12. As of the assessment dates, Kinser did not have "hard contracts" for the costs associated with the PIP. But Kenneth Edwards, who Kinser's representative referred to as the property's owner and who we infer is a principal in Kinser and TriStar, had implemented Formula Blue PIPs at other Holiday Inn Express hotels. Edwards and his contractors estimated that the subject property's PIP would cost approximately $2 million. *Ex. 1 at iii, 33*; *Ex. 2 at iii, 36; Tr. at 35, 51, 249-50.*

13. Various types of guests stay at the hotel. Before the COVID-19 pandemic, roughly 30% of the guests fit within the "leisure" segment of the lodging market, which is comprised of individuals, families, and social groups. The other roughly 70% came from the business or corporate segment, including from Cook Medical, which had a contract with Kinser that accounted for about 5% of the property's occupancy. At the end of 2019, Cook dropped its contract with Kinser and signed a new contract with TownePlace Suites. Following that change and the onset of the pandemic, the subject property's occupancy percentages for leisure guests versus business/corporate guests flipped. *Ex. 1 at 41-42, 44; Ex. 2 at 51-52; Tr. at 57, 60, 156.*

14. Appraisers and market participants in the lodging industry use several metrics to judge a hotel's performance, including occupancy levels, average daily rates for rooms ("ADR") and revenue per available room ("RevPar"), which is simply the average daily rate multiplied by the occupancy rate. For the years leading up to the valuation dates, the subject property had the following metrics:

Year	**Occupancy**	**ADR**	**RevPar**
2017	76.4%	$103.03	$78.71
2018	87.4%	$103.01	$90.03
2019	80.4%	$103.37	$83.11
2020	57.3%	$90.75	$52.00

Ex. 1 at 42-44; Ex. 2 at 52-54.

B. Expert Opinions

1. Clemson's appraisals

15. Kinser hired Randall Clemson to appraise the property. Clemson is a certified appraiser who has appraised nearly 200 hotels during his career. He was familiar with the property, having previously appraised it in 2020 and 2021 for a bankruptcy proceeding. He prepared two appraisals for these appeals—one for each valuation date. In each appraisal, he estimated the market value-in-use of the fee-simple interest in the property, and he certified that he performed the appraisal in accordance with the Uniform Standards of Professional Appraisal Practice ("USPAP"). *Ex. 1, cover letter; Ex. 2, cover letter; Tr. at 19-23, 26-27.*

a. Market analysis and projections

16. Clemson analyzed the regional and local markets. He explained that leading up to 2020, tourism was the fifth largest industry in Monroe County and that Indiana University was the biggest demand generator. *Ex. 1 at 6-16; Ex. 2 at 6-18.*

17. Turning to supply and demand, Clemson set out to identify the subject property's primary competitors. To do so, he interviewed the hotel's manager and owners or managers of other hotels, conducted field research, and consulted a report from Smith Travel Research ("STAR report") that Kinser had provided. Smith Travel, which is now owned by CoStar, aggregates and sells hotel data, including ADR and occupancy data. Based on his research, Clemson identified the following four hotels as the subject property's primary competitors:

Hotel	**Units**	**Yr. Blt.**	**"RAC" rate**[1]	**Leisure**	**Commercial**
Hampton Inn	129	1987	$87-$103	60%	40%
TownePlace Suites	82	2000	$99-$299	20%	80%
Quality Inn	47	1996	$67-$87	20%	80%
Fairfield Inn & Suites	105	1995	$87-$135	80%	20%

[1] Clemson explained that a "RAC" rate is the rate offered by a hotel. He picked off-season and peak-season rates to get his ranges. *Tr. at 100.*

Clemson acknowledged that the Quality Inn was an inferior property, but he included it because it was part of the STAR report. He also explained that the TownePlace Suites, to which the subject property lost the Cook Medical contract, is "more of an extended-stay type property, so the corporate traveler . . . would prefer to stay there." *Ex. 1 at 36-40; Ex. 2 at 47-50; Tr. at 54-57, 306-07.*

18. The subject property outperformed the average metrics for Clemson's competitive set from 2017 through 2020:

Year	Subject Occupancy	ADR	RevPar	Comp. Set Occupancy	ADR	RevPar
2017	76.4%	$103.03	$78.71	77.3%	$94.31	$72.90
2018	87.4%	$103.01	$90.03	80.3%	$93.12	$74.78
2019	80.4%	$103.37	$83.11	66.8%	$92.64	$61.88
2020	57.3%	$90.75	$52.00	41.2%	$70.07	$28.87

Clemson attributed the dip in occupancy for both the subject property and the competitive set following 2018 partly to the Home2Suites and the Graduate Hotel opening in 2018, and the La Quinta Inn opening in 2019. The global COVID-19 pandemic then led to the more precipitous drop in all the performance metrics in 2020. *Ex. 1 at 42-44; Ex. 2 at 52-54; Tr. at 59-60, 66.*

19. Clemson also looked at data from a CBRE trends report (formerly known as the PKF Trends Report), which provides averages for hotel revenue and expenses and is broken down into various categories, including by region, room rate, and size. Clemson chose three categories of limited-service hotels: $75-$115, North Central region, and 100-150 rooms. Although he referred to them as "comparables," it appears that he was using averages of aggregate data from each category rather than data for any specific hotel. *Ex. 1 at 68-72.*

20. Based on his analysis of the market, supply-and-demand, and the subject property's historic performance, Clemson projected stabilized occupancy, ADR, and RevPar for the subject property starting with each assessment year. For his 2020 appraisal, he projected stabilized occupancy at 75%, considering the increased competition from the newer hotels and the

loss of the Cook Medical contract. He projected ADR of $103.50 and RevPar of $77.63, and he applied an annual growth rate of 3% going forward to mimic inflation. *Ex. 1 at 37-44; Tr. at 61-62, 101, 128, 238-39.*

21. Clemson acknowledged that the completion of a PIP will often provide an occupancy boost, but he did not think that projecting an occupancy increase was appropriate because the subject property was already performing way higher than his competitive set. He also explained that he could have lowered his projected occupancy while the PIP was being completed to account for things like construction noise and rooms being pulled out of service and then increased the occupancy rate slightly after the PIP was completed. But he felt the average would have been around 75%. *Tr. at 238-39, 262-63.*

22. Clemson's projections for his 2021 appraisal were more complicated because of the uncertainty posed by the pandemic's effect on the market. In his appraisal report, he included extensive excerpts from a May 2020 report from PwC that projected occupancy to decline by 41.4%, ADR to drop 19.9%, and RevPar to experience an "unprecedented" decline of 53.1% for 2020. The report projected occupancy increasing in 2021, as hotels that had been temporarily closed continued to reopen and demand built while the economy opened back up. But it expected ADR to be slower to recover and forecast that RevPar would increase by only 63% over the 2020 projection. *Ex. 2 at 39-45.*

23. Beyond the PwC report, Clemson explained that he had never seen an event impact the lodging industry like the pandemic had. According to Clemson, Bloomington took a big hit because Indiana University remained shut down even as the world started to open back up. He explained that most or all industry experts expected the lodging market to take three or four years to return to its 2019 levels. *Ex. 2 at 54; Tr. at 152-53, 158-61.*

24. Clemson projected occupancy to increase to 65% for 2021/2022 because university events would resume. He also projected that occupancy would continue to increase by 5% per year before stabilizing at 80% in 2024/2025, when he projected the PIP would be completed. Because the subject property was already outperforming the competitive set, he

projected ADR of $91.00 and RevPar of $59.15 for 2021/2022, with continued growth through 2024/2025:

	2021/2022	2022/2023	2023/2024	2024/2025
Occupancy	65%	70%	75%	80%
ADR	$91.00	$96.00	$101.00	$104.03
RevPar	$59.15	$67.20	$75.75	$83.22

Starting in 2025/2026, Clemson then projected 3% annual growth in revenue and expenses. *Ex. 2 at 54; Tr. at 145, 158-59.*

b. Valuation approaches

25. With those things in mind, Clemson turned to the three generally recognized valuation approaches: the cost, sales-comparison, and income approaches. He decided against developing an analysis under the cost approach, which assumes that an informed buyer would pay no more for an existing property than it would cost to build a substitute property with equal utility. *Ex. 1 at 48; Ex. 2 at 58; Tr. at 68-71, 257.*

26. Clemson explained that the cost approach is particularly useful where the property being appraised has improvements that are relatively new or where there are few sales of comparable properties because the improvements are unique or specialized. But he found that there was a lack of sales involving land similar to the subject site. And he believed that the hotel's age made it too difficult and subjective to accurately estimate depreciation. Despite that belief, in his 2020 appraisal, Clemson found that the hotel was in good condition and had an effective age of only 10 years. Based on its remaining economic life, he determined that the hotel suffered from 20% physical depreciation. *Ex. 1 at 33-34, 48; Ex. 2 at 58; Tr. at 68-71, 257.*

27. Clemson, however, did apply the sales-comparison and income approaches. We therefore turn to his analyses under those approaches for each year.

c. 2020 appraisal

i. Income approach

28. For his 2020 appraisal, Clemson applied two different income-based methodologies: direct capitalization, where he capitalized a single year's projected stabilized net operating income; and a discounted-cash-flow analysis. In his discounted-cash-flow analysis, Clemson projected the property's net operating income over a 10-year holding period and discounted it to present value. He then added the property's reversionary value, which he calculated by capitalizing the property's net income at the end of the holding period and discounting it to present value. *Ex. 1 at 86-89.*

29. Clemson began his direct-capitalization analysis by projecting stabilized income for the subject property. The vast majority of the subject property's revenue is generated by the rooms department, with a small amount of revenue coming from other operating departments. Overall, he projected annual revenue of $2,930,675. *Ex. 1 at 42-44, 64-69*; *Tr. at 101.*

30. Clemson then turned to operating expenses, which he divided into expenses attributed to a department and undistributed expenses. He looked at both the subject property's historical expenses and at data from the CBRE trends report. In some instances, he projected expenses that were more in line with the subject property's 2019 expenses than with the CBRE data. For example, the subject property's marketing expense was below what the CBRE data indicated. But the franchise fee included some marketing expenses, so Clemson projected a marketing expense that was in line with the subject property's historical experience and used the subject property's franchise fee. In other instances he projected expenses that were more in line with the CBRE data, such as where Kinser was able to achieve economies of scale because it operates three hotels. Clemson did not include property taxes as an operating expense because he loaded the tax rate into his "overall rate," which he also described as his "going-in" capitalization rate. *Ex. 1 at 72-83; Tr. at 109-20, 236, 259-60.*

31. The total projected operating expenses were $2,067,387. When subtracted from Clemson's projected operating revenue, that left net operating income of $863,288. *Ex. 1 at 82-83.*

32. Clemson then focused on determining an appropriate overall rate with which to capitalize that income. He looked to three sources: rates derived from sales of comparable hotels that he used in his sales-comparison analysis, data from a PwC survey for the third quarter of 2019 for the national limited-service midscale and economy lodging segment, and conversations with two brokers. The PwC survey was from the third quarter of 2019 instead of the fourth quarter, because PwC only publishes hotel data for the first and third quarters of each year. The ranges for overall rates from the comparable sales and the PwC data were 8.06%-9.61% and 7.5%-12%, respectively. And the brokers said that because the subject property was in a small market and had a Formula Blue PIP, the range should be 9% to 10%. Based on all those sources, Clemson determined an overall rate of 9%, which he loaded with the subject property's net tax rate of 2.12% for a loaded capitalization rate of 11.12%. When divided into his projected net operating income, that rate yielded a value of $7.76 million. *Ex. 1 at 35, 84-87; Tr. at 121-26, 250-51.*

33. But that number considered the property as if the upcoming PIP—which Edwards estimated at $2 million, and which Clemson projected would be spread over three years from 2023 through 2025—had been completed. So Clemson needed to adjust his conclusion to reflect the property's value "as is" on the valuation date. To do so, he discounted the future expenditures on the PIP to a net present value. To select a discount rate, he turned to the PwC survey, which indicated a range of 8%-14%, with an average of 10.55%. The brokers indicated that limited-service hotels do not typically sell based on a discounted cash flow, but if they did, discount rates should be in the range of 12% where overall rates are 10%. Clemson settled on a discount rate of 11%, which when applied to the future PIP expenditures, yielded a net present value of $1,312,052. Thus, the hotel's "as is" value was $6.44 million:

NOI	$863,288
Loaded Cap Rate	÷ .1112
Direct Cap Value	$7,760,000
Less NPV of PIP	($1,321,052)

Rounded "As is" Value $6,440,000

Ex. 1 at 87-88; Tr. at 93-94, 126-28.

34. In his discounted-cash-flow analysis, Clemson projected revenue, expenses, and net operating income for a 10-year holding period. He then discounted each year's net operating income to present value using the same discount rate he determined for the PIP adjustment in his direct-capitalization analysis. He used his stabilized revenue and expense projections and grew them by 3% each year, and he applied the PIP expenses in the years he projected them to occur. To determine the reversionary value of the property at the end of the holding period, Clemson capitalized his projected net operating income for the eleventh year and discounted that amount, less 4% for costs of sale, to present value. Clemson explained that due to the uncertainty of future economic conditions and the natural ageing of the property, residual capitalization rates[2] for properties like the subject property are typically 50 to 100 basis points higher than going-in rates. He therefore settled on a residual rate of 9.75%. *Ex. 1 at 68, 88-90; Tr. at 128-33, 239.*

35. Unlike his direct-capitalization analysis, where he did not include property taxes as an expense but instead loaded the effective tax rate into his overall rate, Clemson appears to have deducted taxes as an expense and used unloaded discount and residual rates in his discounted-cash-flow analysis. He arrived at a value of $7.09 million. Because his discount of the PIP was built into the analysis, he did not need to adjust for that. *Ex. 1 at 85, 88-90.*

36. Clemson then reconciled his conclusions under the two different income-capitalization methods:

Direct Cap	**DCF**	**Reconciled**
$6,440,000	$7,09,000	$6,765,000

[2] The appraisers interchangeably referred to the capitalization rate applied at the end of the holding period as a "terminal" rate and a "residual" rate. For consistency's sake, we will refer to it as the residual rate.

According to Clemson, by deducting expenses for the franchise, marketing, and management fees, he excluded any intangible business value.[3] But his value conclusion did include income—and therefore value—attributable to furniture, fixtures, and equipment ("FF&E"), which are personal property. Rather than attempt to isolate and subtract the FF&E's contributory value as part of his analysis under the income approach, he first reconciled his conclusions under the income and sales-comparison approaches (both of which included value attributable to the FF&E). He then determined the FF&E's contributory value and deducted it from his reconciled conclusion. *Ex. 1 at 90-93; Tr. at 135, 227-28.*

ii. Sales-comparison approach

37. In selecting sales for use in his sales-comparison analysis, Clemson looked for sales of limited-service hotels with flags of similar quality as Holiday Inn Express, such as Hilton, Marriott, or Hyatt. He also preferred sales from smaller markets. For his 2020 appraisal, Clemson chose four sales: a Hampton Inn from Princeton, Indiana; a Home2Suites by Hilton from Liberty Township, Ohio; a Holiday Inn Express from Harrison, Ohio; and a Courtyard (by Marriott) from Indianapolis. All of the sales occurred between December 2018 and July 2019. And Clemson acknowledged that they did not bracket the subject property but were instead all superior to it. *Ex. 1 at 50-54; Tr. at 72-73, 80, 225-26.*

38. Neither the Home2Suites nor the Holiday Inn Express was formally listed before being sold. In the case of Home2Suites, the owner approached a select group of potential buyers with an asking price of $10.7 million and received several offers near the eventual contract price of $9.75 million. Clemson's contact regarding the sale said that the price was "at market." Similarly, the buyer approached the owner of the Holiday Inn Express directly. The buyer indicated that the sale was at arm's-length and that the $5.39 million sale price was at market value. *Ex. 1 at 50-54; Tr. at 77-78.*

[3] Clemson was unclear on this point. In his report, he indicated that he had "deducted all costs related to the 'intangibles' (business value) with the payment of the franchise fee and the **marketing fee** from the cash flows." *Ex. 1 at 91*(emphasis added). At the hearing, however, he testified that if the franchise and **management** fees are taken out as expenses, the "business component is taken out as well." *Tr. at 227-28.*

39. The Holiday in Express had recently undergone a $1.5 million Formula Blue PIP before the sale, which Clemson thought offered further support for Edwards' estimate of $2 million for the subject property's upcoming PIP. Two other properties required extensive PIPs at the time of sale: the Hampton Inn's PIP was $3.5 million, and the broker estimated the Courtyard's PIP at $3 million. Reasoning that the buyers took the impending PIPs into account, Clemson adjusted the properties' sale prices upward by the PIPs' costs to account for the buyers' total investment. With those adjustments, the sale prices ranged from $5.39 million to $10.4 million, and the unit prices ranged from $86,935 to $112,048 per room. *Ex. 1 at 50-54; Tr. at 74-81, 265.*

40. Clemson then considered adjusting the sale prices to account for transactional differences between the sales of his comparable properties and the posited sale of the subject property, as well as for differences in the properties' locational, physical, and economic characteristics. He mostly found insufficient differences to merit any adjustment. But he did adjust the sale prices of the Home2Suites, the Holiday Inn Express, and the Courtyard downward to account for their superior locations in markets that were larger than Bloomington. Clemson also adjusted the sale prices of the Hampton Inn and the Courtyard by 20% for age and condition because their PIPs were more extensive than the subject property's Formula Blue PIP. He similarly adjusted the Home2Suites' sale price because it had undergone renovations that were more extensive than the Formula Blue PIP. *Ex. 1 at 55-60; Tr. at 81-93, 226-27.*

41. Clemson's appraisal reports said little about how he quantified most of his adjustments. In his testimony, he largely agreed that appraising real estate is a blend of art and science. He explained that it is often difficult to get sufficient data to do an exact paired-sale or true regression analysis for commercial real estate. *Tr. at 45, 91-93.*

42. The adjusted sale prices ranged from roughly $79,000/room to $84,000/room, which when applied to the subject property yielded a range of $8,058,000 to $8,568,000. Clemson settled on a value of $8.3 million. Because that number considered the property as if the

PIP had been completed, he applied the same adjustment that he used in his direct-capitalization analysis ($1,312,052), to determine an "as is" value of $6.98 million. *Ex. 1 at 60-62*; *Tr. at 93-95.*

43. Clemson did not believe that his sales-comparison conclusions included any value attributable to the subject property's flag. As he explained, any buyer of a flagged hotel knows it will be paying franchise and management fees. If a buyer got a copy of the seller's profit and loss statement and franchise fees were not included, the buyer would ask about it. Clemson assumed that the buyers of his comparable hotels based their purchase prices on net operating income where franchise and management fees were deducted as expenses. He therefore believed that the value of the flags had been "stripped out" of the sale prices that he used to estimate the subject property's value. *Tr. at 95-97, 127-28, 183-84, 227-29, 259.*

iii. Reconciliation and adjustment for FF&E

44. Because the subject property was stabilized, Clemson gave the most weight to his conclusions under the income approach, using the sales-comparison approach as a "cross-check," and he settled on a reconciled value of $6,765,000 for the real estate and FF&E. As explained above, he then determined the contributory value of the FF&E. Based on a guide from Marshall Valuation Services and unspecified comparable properties with PIP requirements, Clemson determined that replacement costs for FF&E ranged from $4,500/room to $14,000/room. Because of the subject property's higher tier flag, he assumed $14,000/room. He then used the FF&E's weighted effective age and expected life to determine a depreciated value, to which he added 10% salvage value. He arrived at an adjustment of $620,000 or $6,078/room. After deducting the FF&E's value, Clemson settled on a fee-simple value for the real property of $6,145,000:

"As is" value-in-use	$6,765,000
Personal property	($620,000)
Bus. enterprise value	($0)
Real property value	$6,145,000

Ex. 1 at 91-93; Tr. at 97, 135-37.

d. 2021 appraisal

45. The intervening COVID-19 pandemic led Clemson to use slightly different methodology in his 2021 appraisal than he did in his 2020 appraisal. Because the property was not stabilized, Clemson applied a lease-up adjustment to his estimates under his sales-comparison and direct-capitalization analyses. Otherwise, his basic methodology was the same, even if the underlying data, which reflected the pandemic's effect on the market, was different. He also noted an additional reason for not developing the cost approach: there was external obsolescence from the pandemic. *Ex. 2 at 59-105; Tr. at 162.*

i. Income approach

46. For his direct-capitalization analysis, Clemson again capitalized his projected stabilized net operating income. His stabilized revenue projections were mostly in line with the property's 2019 revenue but were much higher than what he projected for the property "as is," on the valuation date. His projected stabilized expenses were roughly $68,000 less than he had projected in his 2020 appraisal. He ended up with stabilized net operating income (without deducting property taxes) of $990,238.[4] *Ex. 2 at 78-97.*

47. For his overall rate, Clemson again looked to PwC, to rates derived from sales of properties that he used in his sales-comparison analysis and that sold from March through September of 2020, and to conversations with brokers. The ranges of overall rates from the comparable sales and the PwC data survey were 5.12%-10.61% and 7%-12% (9.15% average), respectively. Clemson, however, explained that the PwC survey was mostly for institutional properties, while Bloomington is not really an institutional market. The brokers all said that it was difficult to price hotels in the current market. None were looking at current income. One was applying a multiplier based on 2019 revenue, while

[4] In his 2021 appraisal, the stabilized net operating income with property taxes included as an expense was $808,952, while his 2020 report listed net operating income with taxes included as an expense as $863,288. That last number appears to be a reporting error. The $863,288 reflected the net operating income without property taxes being deducted. With those taxes deducted, Clemson's 2020 projection would be $704,792. *See Ex. 1 at 72-83.*

another said he was applying a 9% to 10% rate on 2019 net operating income for good flags and then discounting the price based on comparable sales. A third said he was estimating pro forma net operating income for when conditions improve and then applying a rate of 9% to 10% for higher-quality flags. Clemson settled on a rate of 9.5%. *Ex. 2 at 93-97; Tr. at 123, 190-206, 250-51.*

48. He determined that he needed to adjust not only for the upcoming PIP but also for the loss in revenue that the property would suffer through the lease-up period leading to stabilization. To calculate the adjustment, Clemson performed two separate discounted-cash-flow analyses: one for the property as it existed on January 1, 2021, without stabilized occupancy, revenue and expenses, and another starting in 2024, when Clemson projected the property would achieve stabilization. According to Clemson, the difference between his conclusions under the two methods reflected both the discounted cost of the PIP and the discounted loss in net operating income over the lease-up period. *Ex. 2 at 97-103; Tr. at 177-83, 201, 206, 214-15.*

49. In the first analysis, Clemson used his projections in which the property gradually improved from 65% occupancy and $91.00 ADR in 2021/2022 to stabilized occupancy and ADR of 80% and $104.03 in 2024/2025, at which point he determined that the property's revenue and expenses would grow by 3% per year. The PwC survey showed discount rates ranging from 8% to 12% with an average of 9.8%, and once again brokers said that if overall rates were 10%, discount rates would be 12%. Because Clemson used 9.5% as his overall rate, he concluded a discount rate of 12% for the property as un-stabilized. Although that was near the top of PwC's reported range, Clemson again emphasized that Bloomington was not an institutional market. He applied a residual capitalization rate of 10.25% to the year 11 net operating income, less 4% selling costs, and arrived at an "as-is" value of $5.94 million. *Ex. 2 at 97-99; Tr. at 145-46, 177-83, 205-08, 209-15, 250-51.*

50. For his second analysis, Clemson started his projection in 2024/25—his projected year of stabilization—and went through 2034 (with reversion in 2035). Because the property was stabilized, he used a discount rate of 11.5% instead of 12% and the same residual rate. He

concluded a value of $8.59 million. Subtracting his "as-is" discounted cash flow value from that amount yielded a lease-up (and PIP) discount of $2.65 million. When deducted from his stabilized direct-capitalization conclusion, that yielded a direct-capitalization value of $5.87 million. In reconciling his two income-based methodologies, Clemson adopted the un-stabilized discounted-cash-flow value of $5.94 million. *Ex. 2 at 97-103; Tr. at 177-83, 209-15.*

51. Similar to his 2020 appraisal, Clemson then reconciled his direct-capitalization and his un-stabilized discounted-cash-flow conclusions. Because the property was not stabilized on the assessment date, he gave the greatest weight to his discounted-cash-flow analysis and settled on $5.94 million. *Ex. 2 at 97-103; Tr. at 214-15.*

ii. Sales-comparison approach

52. For his 2021 appraisal, Clemson opted to look for sales that had occurred after the beginning of the pandemic. But there were few sales to choose from. He settled on four: a Hyatt Place from Columbus, Ohio; a La Quinta Inn and a Quality Inn, both from Indianapolis; and a Fairfield Inn & Suites from Jeffersonville. Two sold in March 2020, one sold in July, and the Fairfield Inn sold at auction in September. The price for the Fairfield Inn included an auction premium. The broker said that it sold with a "covid discount," but that the price was nonetheless "at market" despite the auction. Clemson described all of the properties as inferior to the subject property. *Ex. 2 at 61-70; Tr. at 164-69, 175-76, 244.*

53. He considered adjusting the sale prices along the same lines as he did in his 2020 appraisal, including adjusting all four sale prices for pending PIPs. But given the inferior quality of his sales, Clemson's 2021 appraisal included substantial adjustments beyond the ones he made in his 2020 appraisal. For example, he adjusted the La Quinta and Quality Inn sales by 10% and 25%, respectively to account for their inferior flags. He similarly adjusted all the sales by 10% to 25% to reflect their inferior economic conditions because they were not stabilized at the time of sale, whereas he was initially estimating a stabilized value for the

subject property. Also, the Hyatt Place was mismanaged even before the pandemic. And he adjusted three of the sales between 10% and 20% because of their inferior age and condition, even with their PIPs. Once again, Clemson largely did not explain how he quantified his adjustments. Based on the adjusted sales, he concluded a rounded value of $8.2 million. *Ex. 2 at 61-70; Tr. at 170-76.*

54. As with his direct-capitalization analysis, Clemson determined that he needed to adjust not only for the subject property's upcoming PIP, but also for the loss in revenue through stabilization. He therefore applied the same $2.65 million adjustment he used in his direct-capitalization analysis. *Ex. 2 at 61-70, 98-101; Tr. at 177-83, 206, 214-15.*

iii. Reconciliation and adjustment for FF&E

55. Clemson ultimately gave little weight to his conclusions under the sales-comparison approach and settled on $5.94 million—his conclusion under the income approach—as the value of the real estate and personal property. He then deducted the depreciated value of the FF&E, which was one year older than in 2020 and which he estimated at $460,000, to arrive at a value for the real property of $5.48 million. *Ex. 2 at 103-05; Tr. at 176-77, 215-17, 245.*

2. Hall's appraisals

56. The Assessor hired David Hall and Michael Lady of Integra Realty Resources to appraise the property, and they prepared separate appraisals as of each valuation date. Both are certified appraisers with various professional designations, including the MAI designation from the Appraisal Institute. Hall has appraised various property types, including about 90 hotels. He is a member of his firm's specialty practice group for lodging and hotels. Although Lady reviewed the appraisals, Hall was primarily responsible for developing them. For the sake of brevity, we will refer to the appraisals and the opinions contained therein as Hall's. Like Clemson, Hall estimated the market value-in-use of the fee simple interest in the property, and he certified that he prepared his appraisals in accordance with USPAP. *Ex. B; Tr. at 274-75, 277.*

a. Market analysis and projections

57. Hall analyzed Monroe County's economics and demographics both pre- and post-pandemic. He found that most of the indicators were strong before the pandemic. The early part of the pandemic was characterized by lockdowns, business closures, and a short-term decline in consumer spending, all of which led to a rise in unemployment. But Hall explained that the local market area had seen a "fairly strong rebound" by the end of 2020. One indicator of the rebound was that much of the job loss had been recovered by the end of the year. *Ex. A at 14-19; Ex. C at 14-19; Tr. at 432-34.*

58. Hall next performed a market-segmentation analysis. He determined that the subject property was a good quality limited-service hotel. According to JD Power, the property's flag—Holiday Inn Express & Suites—competes in the upper-midscale segment of the lodging market, along with flags such as Hampton, Fairfield by Marriott, Wyndham Garden, Comfort Inn, Country Inn & Suites, La Quinta Inn & Suites, and others. Even if one removed the subject property's flag, based on its construction quality, amenities, and room mix, Hall believed that it would compete in the upper-midscale segment. *Ex. A at 24-25; Tr. at 302-03.*

59. He used data from Smith Travel to analyze competitive trends segmented by chain-scale (upper midscale), class (upper midscale), and location (East North Central United States and small metro/town). Across all those segments, occupancy, ADR, and RevPar either remained relatively stable or grew between 2017 and 2019. *Ex. A at 29-31.*

60. The COVID-19 pandemic caused demand to fall dramatically in 2020. The downturn at pandemic's outset was severe. Although leisure and business travel gradually rebounded during the second half of 2020, other demand segments were "nearly nonexistent." But the hotel industry rebounded more quickly than people thought, with interstate hotels and hotels in smaller markets rebounding the fastest. In November 2020, CBRE Hotels published an analysis of the pandemic's impact on hotel values, concluding that while all

chain scales and locations were affected, the effects varied among different service levels, chain scales, locations, price tiers, and demand sources. The data fell into three tranches: low (less than 10% affect), moderate (between 10% and 20%) and high (between 20% and 30%), and CBRE included characteristics associated with each tranche:

	Low	Moderate	High
Chain Scale	Economy/Midscale/Upper Midscale	Upper Midscale/Upscale	Upper Upscale/Luxury
Market	Drive to Markets	Primary and secondary drive to markets, including resorts	Primary/Gateway markets/Fly to Resorts
Location	Suburban/Small Metro/Interstate	Suburban/Small Metro/Interstate/Drive to Resort	Urban/Fly to Resort
Service Level	Non-Urban Lim. Serv./Extended Stay	Non-Urban Lim. Serv./Select Serv./Extended Stay	Full Service/Convention Hotels
Price Range	Less than $10 million	$10 million - $25 million	More than $25 million
Demand Sources	Essential travelers; first responders; transportation industry/construction crews; temporary housing	Essential travelers; first responders; drive to leisure/corporate	Group/Convention; inbound international; fly to leisure/corporate

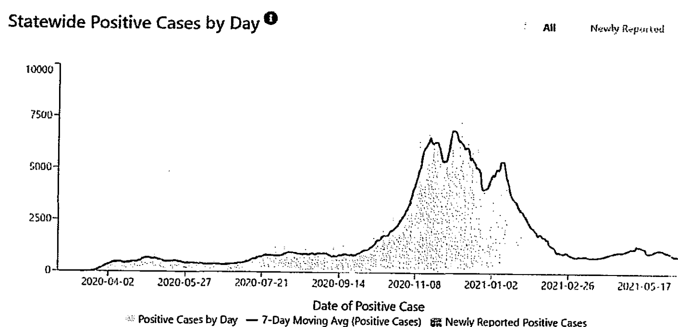
CBRE also compared stabilized values from pre- and post-pandemic to determine value loss by service level, chain scale location type, and price tier. In each instance, the category into which the subject property fit—limited service, mid-tier, non-urban/resort, and price range below $25 million—the loss was between 9.2% and 10.8%. *Ex. C at 27-30; Ex. F; Tr. at 432-40.*

61. Hall also knew about the May 2020 article from PwC that Clemson had referenced in his report. At the hearing, Kinser showed him additional articles, including a November 2020 article from HVS analyzing the pandemic's impact on hotel values. As Clemson explained, the PWC article projected far steeper declines. The HVS article similarly reflected steeper declines than CBRE's analysis, indicating that values for upper-midscale hotels declined by an average of 17%, and that Midwest hotel values declined by an average of 28%. Hall, however, believed that the CBRE analysis more finely sliced the data by segment, allowing him to better home-in on how the pandemic affected values for a hotel like the subject

property—an upper-midscale limited-service hotel in a small metro area with a price range below $10 million. And it analyzed the data from a perspective close in time to the 2021 valuation date for his appraisal. *Ex. 9; Tr. at 764-76, 849-52.*

62. Based on the CBRE data, Hall concluded that, as of the January 1, 2021 valuation date, a pandemic-related impact of less than 10% would have been expected. Hall, however, acknowledged that CBRE did not segment its analysis based on whether hotels were located in university towns. And he acknowledged that the properties comprising his competitive set (discussed below) experienced a 46.9% decline in RevPar between 2019 and 2020 that was not far off the year-over-year forecast from the PwC analysis, although he explained that the decline was an annualized figure. Hall also acknowledged that RevPar for his competitive set hovered roughly around $35 for most of June through December 2020. The competitive set's occupancy rate and ADR were also down by varying degrees compared to 2019, although they were much closer in December. *Ex. C at 28-29, 37-41; Tr. at 860-64.*

63. In his 2020 appraisal, Hall included a chart from the Indiana Department of Health's COVID Dashboard that tracked cases from March 2020, when the first case was reported in Indiana, through May 2021:



He did not include the chart in his 2021 appraisal. *Ex. A at 27.*

64. Based on the subject property's location, characteristics, competitive rankings by online travel websites, survey data from JD Power & Associates, and other considerations, Hall

identified four competitive properties in Bloomington: the Hampton Inn and Fairfield Inn & Suites that Clemson had included in his appraisals, as well as a Comfort Inn, and the new La Quinta Inn. Hall testified that, in his judgment, the Comfort Inn was of the same quality as the subject property. Although some of the Comfort Inn's common areas were smaller and it had 39 fewer guest rooms than the subject property, the hotels' amenities were consistent with each other. And while the Comfort Inn was older than the subject property, the Comfort Inn was extensively renovated in 2007. *Ex. A at 31-36; Ex. C at 33-38; Tr. at 534-39, 551-54.*

65. Hall viewed the primary demand component for all five properties (the subject property and the four competitors) as leisure travelers. He was not as concerned with the subject property's historical demand, which was more heavily weighted toward corporate and business travelers before 2020, because he was appraising the property's market value-in-use, rather than its value as a Holiday Inn Express & Suites. *Ex. A at 31-36; Ex. C at 33-38; Tr. at 506-09, 534-49, 576-77, 582-85, 821.*

66. Even though the neighboring TownePlace Suites and the Home2Suites that was built in 2018 were included in JD Powers' list of upper-midscale hotels, Hall did not consider them part of the competitive set. He explained they were both extended-stay hotels that catered primarily to business travelers who typically rent rooms for multiple days, or even for weeks at a time. Because of that, they have larger rooms with kitchenettes. Indeed, JD Power only included a couple of extended-stay hotels in its list. Hall acknowledged that the subject property had some characteristics that were similar to the neighboring TownePlace Suites, but he also explained that the guest rooms at both that hotel and the Home2Suites were all suites, while only 30% of the subject property's rooms were suites. *Ex. A at 31-36; Ex. C at 33-38; Tr. at 316, 345-47, 506-09, 534-49, 576-77, 583-85, 821.*

67. Hall developed a scorecard ranking the properties in the competitive set based on multiple factors: flag quality; age, condition, and amenities; access and exposure; and support services and demand generators. Overall, he ranked the subject property the same as the

Comfort Inn and La Quinta Inn, and slightly superior to the other two hotels. *Ex. A at 31-36; Ex. C at 33-38; Tr. at 546-53.*

68. The occupancy levels for the competitive set fell in 2019 when the La Quinta Inn entered the market, and Hall believed that it would take time for the market to absorb those additional rooms. Unlike Clemson, however, Hall did not believe that the Graduate Hotel and Home2Suites that were built in 2018 had a similar effect. To the contrary, he did not view them as direct competitors to the subject property. He described the Graduate as a boutique hotel, and as already explained, the Home2Suites is an extended-stay property. Those two hotels were also not in the same location as Hall's competitive set. He acknowledged the possibility that a 14.2% decrease in room nights sold for the competitive set between 2018 and 2019 could have been partly attributable to the Home2Suites. But Hall doubted that the opening of the Home2Suites explained the bulk of that change. Room nights sold for the competitive set increased during 2018. Had the Home2Suites been competing with hotels in the competitive set, Hall would have expected at least some impact in that year. *Tr. at 316, 345-47, 568-81.*

69. Because of its higher occupancy levels, the subject property had more than 100% market penetration, meaning that it had more occupied room nights than would be expected based on the number of its available rooms as a percentage of the total available rooms for the five-hotel competitive set. The subject property similarly had a higher "ADR yield," meaning that its ADR was higher than the set's average ADR. Based on the subject property's scorecard ranking, Hall projected that it would initially continue to have higher than 100% market penetration, although that percentage would gradually decline to 100%. And he projected a steady 105% ADR yield going forward. Hall acknowledged that he did not have a mathematical formula translating his ranking of the subject property to a specific level of market penetration but rather explained that he viewed his conclusions as reasonable given the property's relative position. *Ex. A at 31-41; Ex. C at 33-43; Tr. at 312-21, 443-49, 562-73.*

70. Based on his market analysis, Hall made the following projections:

2020 Appraisal

Year	Occupancy	ADR	Revenue	RevPar
2020	71.4%	$102.90	$2,736,725	$73.51
2021	73.6%	$103.93	$2,849,555	$76.54
2022	73.0%	$104.97	$2,853,020	$76.63
2023	72.3%	$106.02	$2,885,461	$76.70
2024	71.1%	$107.08	$2,856,834	$76.73

2021 Appraisal

Year	Occupancy	ADR	Revenue	RevPar
2021	60.4%	$89.25	$2,008,507	$53.95
2022	65.3%	$98.18	$2,386,227	$64.09
2023	70.5%	$107.99	$2,833,656	$76.11
2024	72.6%	$109.07	$2,948,395	$79.19
2025	71.9%	$110.17	$2,950,067	$79.24

Ex. A at 42; Ex. C at 44; Tr. at 312-21, 443-49, 479.

b. Treatment of the PIP

71. The PIP helped confirm Hall's observations that most of the property's FF&E was dated and that some of the building finishes were dated and nearing the end of their economic lives. Hall's projections therefore partly reflected his belief that the property's competitive market appeal would decline over time. That would not necessarily lead to annual declines in revenue, however, because he was presuming that the overall market would increase and that rental rates would increase. So even as the property's relative competitive appeal diminished, the theory that "a rising tide lifts all boats," offset that decline to some extent in his projections. *Tr. at 318-19, 330-32, 395-96, 406, 412-13, 448, 686-87.*

72. Although he acknowledged that a potential buyer would consider an imminent PIP when making an offer, at least if it knew the cost of the PIP, Hall did not quantify the subject property's Formula Blue PIP when he applied his valuation approaches. He offered four reasons for his decision. *Tr. at 329, 341, 424-29, 451-52, 621-24, 827-28.*

73. First, the Formula Blue PIP is a Holiday Inn Express requirement rather than a market requirement. It is specific to that flag and to the subject property. While he has made line-item adjustments for PIPs in other appraisals, those were market-value appraisals where he was asked to value the property under its current flag. *Tr. at 329, 341, 424-29, 451-52, 621-24, 827-28.*

74. Second, in his 2020 appraisal, he was valuing the property "as is" on January 1, 2020, and the PIP, on its face, was issued after that date. Hall, however, acknowledged the possibility that a representative from the franchisor had inspected the property in connection with the PIP before the 2020 valuation date, and that given the hotel's age and the lack of a previous PIP, there would have been a reasonable expectation that the PIP was coming soon. In any case, Kinser still did not have cost estimates or a budget for the PIP when Hall inspected the property in June 2022. *Tr. at 329, 341, 424-29, 451-52, 613, 615-17, 670-74, 827-28.*

75. Third, it would be impractical to look at the PIP's scope and come up with a market estimate for its cost. It would be difficult to find another PIP that would be specific to the subject property. Plus, PIPs sometimes take years to complete, and Hall explained that he would struggle to find market data to show how much money would be spent on the PIP in a particular year. *Tr. at 329, 341, 424-29, 451-52, 621-24, 827-28.*

76. While Hall agreed he could probably have estimated the cost for the portion of the PIP dealing with personal property, the PIP also called for work on floor and wall finishes, painting, and exterior renovations. He acknowledged that he theoretically could have called contractors to get cost estimates. But the time and expense of doing so would not have been practical. Hall did not know of anyone who had undertaken that task for an appraisal assignment. In the market-value appraisals where Hall had made PIP-related line-item adjustments, the PIPs had definitive start and end dates, and he had detailed cost estimates, budgets, or invoices. *Tr. at 621-24, 827-28.*

77. Finally, because no property owner would complete a PIP without expecting an economic reward, Hall would have needed to account for a PIP-related boost in occupancy and ADR.

But that would have been very difficult to quantify. So rather than quantify and adjust for a PIP, Hall valued the property not as a Holiday Inn Express & Suites that would be undergoing a Formula Blue PIP, but as an upper-midscale limited-service hotel with aging FF&E that would lead to a corresponding deterioration in the hotel's relative market appeal over time. That deterioration could show up in occupancy levels or ADR. Based on trends in the local market, Hall thought that the subject property's occupancy level would be most affected. *Tr. at 329, 341, 424-29, 451-52, 624-33.*

c. Rating of hotel's construction quality and condition

78. Turning to the subject property's features, Hall concluded that the hotel fit Marshall Valuation's description of a "good" quality class C limited-service hotel. He pointed to the property's masonry construction and what he described as its good entrance, which was consistent with Marshall Valuation's description of a "good" quality hotel's exterior as "[b]rick, metal or concrete and glass, good trim and entrance." He also highlighted the descriptions of "good" quality for three other categories: internal finish; heat; and lighting plumbing, and mechanical. Marshall Valuation described the "good" level for the last of those categories as "[l]ighting/plumbing above code, standard fixtures, some extras." Although Hall could not say whether the hotel's plumbing exceeded code, he believed that its lighting probably did. He acknowledged that the "good" description for heat referred to a "heat pump system," while the "average" description referred to "individ. thru-wall heat pumps," similar to the subject property's PTAC heaters for the rooms. Indeed, Hall explained that there was overlap between the descriptions for different quality levels. While some of the hotel's features fit with the descriptions of both "good" and "average," others also fit the description of "excellent." And he pointed out that "good" construction would be typical for a hotel, like the subject property, that competes in the upper-midscale segment of the local lodging market. *Ex. A at 54-63; Ex. C at 56-65; Exs. I, J; Tr. at 730-35, 745-46, 831-32.*

79. As for condition, Hall estimated the hotel's effective age as being consistent with its actual age: 13 years in 2020 and 14 years in 2021. *Ex. A at 62; Ex. C at 64.*

d. Valuation approaches

80. Unlike Clemson, Hall developed all three generally accepted valuation approaches, including the cost approach. He offered four reasons for why he believed that the cost approach was relevant. First, according to Hall, investors frequently use that approach when building, buying, or operating a hotel. And because they must frequently renovate hotels to comply with franchise requirements, most owners are highly educated about hotel construction costs. They also understand depreciation and are familiar with the concept of economic life. Second, abundant market data exists for developing reliable hotel cost estimates. Third, the cost approach inherently excludes value attributable to personal property and to intangible assets, such as the business enterprise. Finally, Hall thought it would be a little easier and less subjective to estimate depreciation for the subject hotel because it had not been substantially renovated. *Ex. A at 99-101; Ex. C at 101-02; Tr. at 285-87.*

i. Cost approach

81. Hall began his analysis under the cost approach by estimating the value of the subject site as if vacant. To do so, he looked for sales of comparably sized vacant sites from Monroe County. He selected four sites from Bloomington that sold between May 2018 and October 2020. He used those sales for both his 2020 and 2021 appraisals, explaining that there were few transactions for vacant land during 2020. Some of the sites were inferior to the subject site and others were superior. Hall believes that bracketing the property being appraised in that manner helps anchor the high and low ends of the probable value range and gives an appraiser a degree of confidence that he has made appropriate adjustments. *Ex. A at 102-05; Ex. C at 104-07; Tr. at 354-55, 454-55.*

82. Hall then considered adjusting the sale prices for transactional and property-related differences. To account for differences in market conditions between the sale dates and his valuation dates, Hall looked at economic and demographic trends in Monroe County and concluded that a 2% annual growth rate was appropriate for both valuation dates. In his

view, the pandemic did not affect the market for land to the same extent it affected the market for hotels. Indeed, because there were not enough transactions, it was difficult to know if the pandemic had any real effect on land values. *Ex. A at 109; Ex. C at 111; Tr. at 455-57.*

83. For access and exposure, Hall qualitatively rated each site as similar, inferior, or superior to the subject site in terms of visibility, access, and proximity to major highways, and he quantified each degree of difference at 5%. For example, he found one of the sites superior to the subject site in all three respects and adjusted its sale price by -15%. Turning to size differences, Hall identified thresholds for his adjustments. For example, he found that no adjustment to the unit price would be warranted for sites that were between 0 and .5 acre larger than the subject property, but that a 10 % adjustment would be warranted for sites that were between .5 and 1 acre larger than the subject site, with increasingly larger adjustments warranted at higher thresholds. *Ex. A at 109; Ex. C at 111; Tr. at 455-57.*

84. For each valuation date, Hall settled on land values that mirrored the average of his adjusted unit prices: $290,000/acre for 2020 and $295,000/acre for 2021. Those translated to rounded site values of $435,000 and $440,000, respectively. *Ex. A at 111-12; Ex. C at 113-15.*

85. To estimate the improvements' replacement costs, Hall relied on Marshall Valuation's calculator method, but he also applied unit methods using data from Marshall Valuation and HVS, a global consulting firm for the hospitality industry, as a test of reasonableness. For the calculator method, Hall used replacement costs for a class C "good" quality limited-service hotel. He then added several indirect costs that are typically incurred in building a hotel but that are not included in Marshall Valuation's data. Based on the hotel's location and the project's complexity, and relying on past appraisals of new hotel construction where he had looked at construction budgets, Hall estimated those indirect costs at 7% of direct costs. He also added an amount equal to 10% of direct costs to account for entrepreneurial incentive, which he explained reflects the amount that would be necessary to convince an entrepreneur to undertake the project. His estimate of

entrepreneurial incentive was at the low end of the range reported for gross profit percentages on construction projects involving general commercial buildings. Hall's total estimate of replacement costs was $10,294,695 for 2020 and $10,293,653 for 2021. *Ex. A at 113-21; Ex. C at 115-23; Tr. at 359-64, 457-61.*

86. Hall then turned his attention to estimating the improvements' depreciation. He used the age-life method to estimate physical deterioration based on his estimates of the improvements' effective ages and the typical lifespans for those types of improvements that Marshall Valuation reported. For 2020, Hall did not believe that the improvements suffered from any functional or external obsolescence. For 2021, however, he found that the improvements suffered from external market obsolescence stemming from the COVID-19 pandemic. But he did not adjust his depreciated cost to account for that obsolescence, explaining that it was difficult to quantify. According to Hall, the pandemic primarily affected the business enterprise rather than the real estate, which made obsolescence harder to quantify. *Ex. A at 122-25; Ex. C at 124-27; Tr. at 365-70, 461-64, 785-87, 817.*

87. He ended up with the following conclusions under the cost approach:

	2021	**2022**
Replacement Cost	$10,294,645	$10,293,653
Depreciation	($2,757,352)	($2,966,404)
Rounded Dep. Cost	$7,540,000	$7,330,000
Land Value	$435,000	$440,000
Total Value	$7,980,000	$7,770,000

Ex. A at 122-25; Ex. C at 124-27.

ii. Sales-comparison approach

88. Moving to the sales-comparison approach, Hall looked for sales of Indiana limited-service hotels with 60 or more rooms that were built from the 1990s through the 2010s. He ultimately selected five hotels: two Courtyards by Marriott from Indianapolis, a Hilton Garden Inn from Chesterton, a Holiday Inn Express from Shelbyville, and a Comfort Suites from Plymouth. They sold between January 2017 and December 2019. *Ex. A at 126-30, 137; Ex. B at 128-32, 140.*

89. Hall used the same sales for both appraisals. He decided against using sales from 2020 for his 2021 appraisal for two reasons: sales activity had slowed to a crawl, and most of the sales he did find closed during the peak of the pandemic when the hotels were shut down and market participants either had no idea what was going to happen with the industry or were making dire predictions that had not materialized by the valuation date. Hall therefore thought it would be better to use pre-pandemic sales and adjust them for market conditions using CBRE's "robust" study of the pandemic's impact on hotel values. *Ex. A at 126-30, 137; Ex. B at 128-32, 140; Tr. at 371-74, 381-82, 464-66, 792.*

90. The sales bracketed the subject property in terms of price and location: Plymouth is a very small town without a demand generator like Indiana University, while Indianapolis is a superior location. The sales also bracketed the subject property in terms of room count, gross building area, and construction date. After deducting the amount the parties reported as the portion of the sale price attributable to personal property, the prices ranged from $50,750/room to $107,800/room. *Ex. A at 126-30, 137; Ex. B at 128-32, 140; Tr. at 371-74, 381-82, 471.*

91. As with his land sales, Hall considered whether there were any transactional or property-related differences requiring adjustments to the sale prices. Based on the data from his market analysis, Hall concluded that an annual growth rate of 3% was appropriate to adjust the sale prices to reflect values as of the January 1, 2020 valuation date. Due to the pandemic, the data from his market analysis showed much different trends leading up to the January 1, 2021 valuation date. To adjust the sale prices to that date, he used 3% annual appreciation through January 1, 2020, and 10% annual depreciation from there to the 2021 valuation date, which was the high end of depreciation indicated by what he viewed as the applicable tranche from CBRE's study. For location, Hall compared the properties in terms of surrounding population density, access and proximity to major highways, and traffic counts along the primary corridor. For access and exposure, he used a qualitative system similar to the one he used in adjusting his land sales. Reasoning that hotels with fewer rooms have higher expenses per room, he adjusted for differences in number of rooms. He

also adjusted for differences in room size, construction quality, age, and brand affiliation. *Ex. A at 131-137; Ex. C at 133-40; Tr. at 371-79, 467-70, 701-02.*

92. While Hall explained the reasoning behind his adjustments both in his land valuation and his sales-comparison analysis of improved sales, he acknowledged that he did not use mathematical formulas to quantify those adjustments. In some instances, such as with size adjustments or adjustments for differences in market conditions, he explained that there is no accepted mathematical formula for making the adjustment. He instead looked at underlying data and at broad trends and relationships, and he used his experience to come up with what he believed were reasonable quantifications of how the market valued relevant differences between properties. But he acknowledged that many of the adjustments were subjective. *See, e.g., Tr. at 701-04, 708, 712, 736-38, 742-43.*

93. For 2020, Hall's adjusted sale prices ranged from $79,657/room to $102,410/room, while for 2021 they ranged from $71,268/room to $91,199/room. In each case, Hall settled on a rounded average: $89,000/room for 2020 and $80,000/room for 2021. Those translated to overall values of $9,078,000 and $8,160,000, respectively. *Ex. A at 137-40; Ex. C at 140-43.*

94. Unlike Clemson, Hall adjusted his conclusions to remove business-enterprise value. Hall explained that the question of how to handle intangible property like business-enterprise value has been vigorously debated with no clear consensus. Some experts believe that hotel sales involve very little intangible value, while others, such as David Lennhoff, argue that business value is a major component. In any case, there is no established market for the sale of value components individually, and their contributory values vary widely even among similarly branded hotels. The International Association of Assessing Officers has supported the view expressed by several experts, including Stephen Rushmore, that once a hotel's franchise and management fees have been deducted from its income stream, the remaining income reflects the real property's value only. *Ex. A at 100, 138-40; Ex. C at 102, 141-43; Tr. at 290-91, 381-86, 472-74.*

95. Hall deducted those fees in his analysis under the income approach. But unlike Clemson, Hall did not assume that the buyers of his comparable properties made their purchasing decisions in that manner. In Hall's mind, the only way to know would be to personally verify it with the buyers and sellers. And he was not able to do that. Thus, to be consistent with his analysis under the income approach, Hall applied a deduction from his sales-comparison conclusions to account for franchise and management fees. But he acknowledged the possibility that, by doing so, he was accounting for more business-enterprise value than the parties to the sales had in mind. Indeed, he believed that may have been why his conclusions under the sales-comparison approach were lower than his conclusions under the other two approaches. *Ex. A at 100, 138-40; Ex. C at 102, 141-43; Tr. at 290-91, 381-87, 472-74, 837-38.*

96. To calculate his deduction, Hall capitalized what he found to be market-level management and franchise fees. Because he was valuing the subject property as an upper-midscale limited-service hotel rather than specifically as a Holiday Inn Express, he looked to market data rather than to the subject property's actual fees. He used industry averages and benchmarks from Smith Travel and CBRE to derive a management fee and to Smith Travel's reported average for limited-service hotels in the East North Central region of the United States to derive a franchise fee (CBRE did not report franchise fees separately from sales and marketing expenses). He then capitalized those fees using a rate of 20%:

	2020	**2021**
Management Fee	$105,193	$77,202
Franchise Fee	$130,050 ($1,275/room)	$74,562 ($731/room)
Total Fees	$235,243	$151,764
Capitalization Rate	÷ .20	÷ .20
Adjustment	$1,180,000	$760,000

Ex. A at 138-43; Ex. C at 141-43; Tr. at 387-89, 472-74, 480.

97. Hall's capitalization rate was more than 850 basis points higher than the loaded rates he used in his direct-capitalization analysis under the income approach. But he explained that there is no known source of capitalization-rate data for franchise and management fees and

that he needed to reflect the high level of risk posed by the fact that those fees are charged as a percentage of income and are highly variable. In consulting with other members of his firm's hotel practice group, Hall found that rates ranging from 15% to 25% were common for those components. Had he instead used the loaded rates from his income approach, his adjustments would have been much larger and his value conclusions much lower. The same is true if he had used either the subject property's actual franchise fee, which consisted of a 6% royalty fee, a 3% service contribution fee, and an $11.34/room technology fee, or Smith Travel's data for the upper-midscale segment. *Ex. A at 139-40; Ex. C at 142-44; Tr. at 388-89, 718-28, 796-803.*

iii. Income approach

98. Turning to the income approach, Hall used the revenue projections from his market analysis for each year. To project expenses, he relied on data from Smith Travel for the East North Central, interstate, and upper midscale segments, and data from the same segments of the CBRE trends report that Clemson had used. Hall projected departmental expenses that he alternately described as similar to or "bracketed by" the Smith Travel and CBRE data. *Ex. A at 141-51; C at 144-54; Tr. at 401-03.*

99. Hall did not project a franchise fee as a separate expense. He instead included it in his sales-and-marketing expense, which he explained includes "a franchise fee (e.g., program fees and royalty fees)" as well as the cost of local marketing efforts. That is how the expense is reported in CBRE, although Smith Travel includes a separate line item for franchise fees, which is what Hall used in calculating his business-enterprise adjustment for his sales-comparison analysis. For 2020, his sales-and-marketing expense, expressed as a percentage of total income or room revenue, was higher than any of the segments from Smith Travel, including the upper-midscale segment, although it was a little lower than a few of the segments when expressed as a function of dollars per room. For 2021, the opposite was true. Hall's projected expense was lower than Smith Travel's upper-midscale segment on a percentage bases but higher as a function of dollars per room. In fact, it was higher than the dollars-per-room for any of the segments from Smith Travel or CBRE. All

told, Hall projected $1,839,048 of operating expenses for 2020 and $1,557,598 for 2021, which yielded net operating income of $966,095, and $501,122 for the two years, respectively. *Ex. A at 141-51; C at 144-54; Tr. at 396-405, 480.*

100. Like Clemson, Hall applied both direct capitalization and discounted-cash-flow analyses in his 2020 appraisal. Because the hotel was not stabilized on the 2021 valuation date, however, Hall relied solely on a discounted-cash-flow analysis for that year. He acknowledged that, in theory, he could have done what Clemson did and prepared a direct-capitalization analysis and then adjusted it using the difference between an "as is" discounted-cash-flow analysis and a stabilized discounted-cash-flow analysis. But he would have needed to make so many assumptions that, in his view, the adjustment would have been unreliable. *Ex. A at 151-64; Ex. C at 155-63; Tr. at 475-77, 481-82, 846-57.*

101. Next, Hall used three methods to determine an overall rate for his 2020 appraisal. First, he derived a rate from eight comparable sales. Second, he calculated a rate using bands of investment. Finally, he looked at two national investor surveys, including the PwC survey that Clemson used in his appraisal, albeit for the first quarters of 2020 and 2021, rather than from the third quarters of 2019 and 2020. *Ex. A at 152-54; Tr. at 406-09.*

102. Hall believed that the average was the appropriate data point to use from the PwC survey rather than a rate closer to the top of the range. He acknowledged that the survey represented a cross-section of major institutional equity investors who invest primarily in institutional-grade property. But he explained that hotels cross the geographic spectrum. And he believed that, as a chain-affiliated hotel, the subject property was institutional-grade, "in that it's the type of property that an . . . institutional-grade investor, might acquire[,]" although it was debatable whether an investor would buy the property as part of a portfolio. For those reasons, he concluded that the average rate reported by PwC was a reliable indicator for the subject property. *Tr. at 658-61.*

103. Hall reconciled his data to an overall rate of 9.1%, into which he loaded the effective tax rate to conclude a loaded capitalization rate of 11.22%. When divided into his projected net operating income, that yielded a value of $8,610,475. *Ex. A at 152-59; Tr. at 406-09.*

104. Like Clemson, Hall adopted the Rushmore approach and determined that by deducting franchise and management fees as expenses, he excluded value attributable to the business enterprise. Also like Clemson, Hall recognized the need to deduct the by FF&E's contributory value. He used two methods to develop his deduction: he calculated the FF&E's depreciated cost using data from Marshall Valuation and the U.S. Hotel Development Cost Survey, and he looked at the contributory value for personal property listed on the sales disclosure forms from his sales-comparison analysis. He settled on a value of $590,000, which when deducted from his going concern estimate yielded a value of $8,020,000:

NOI	$966,095
Loaded Cap Rate	÷ .1122
Gong Concern Value	$8,610,475
FF& E Adjustment	($590,000)
Rounded Value	$8,020,000

Ex. A at 152-59; Tr. at 409-16.

105. For his discounted-cash-flow analyses, Hall used the income projections from his appraisals' market analyses for the first five years. For the rest of his projected 10-year holding period, he increased the room revenue by 2% annually. He fixed the revenue for other operated departments and rentals and other income at 1.5% and 1% of room revenue, respectively. For expenses going forward after year one in each appraisal, Hall fixed most of his expenses at a percentage of either room revenue or total income, although those percentages differed between his two appraisals. For property operations & maintenance, utilities, and insurance, he projected annual growth of 2% in each appraisal. In both appraisals, he projected selling costs of 3% for the reversion. *Ex. A at 160-64; Ex. C at 156-63; Tr. at 417-21.*

106. To determine discount and residual rates, Hall relied on the PwC surveys. He selected the reported averages. The average discount rates were 10% for 2020 and 9.7% for 2021, while the average residual rates were 9.33% for 2020 and 9.1% for 2021. Hall recognized that it seemed counterintuitive for the rates to be lower in 2021 than in 2020. But he explained that buyers were forecasting significant increases in cash flows and therefore saw less risk. To illustrate, he pointed to a Hampton Inn that sold in 2022 for an overall rate of only 2% based on its trailing income. Unlike Clemson, Hall loaded his rates with the property's effective tax rate, for loaded discount rates of 12.12% (2020) and 11.76% (2021), and loaded residual rates of 11.45% (2020) and 11.16% (2021). *Ex. A at 160-64; Ex. C at 156-63; Tr. at 343, 404, 419-20, 477-78, 491, 814, 856-57.*

107. In choosing the average rates from the survey rather than a number closer to either end of the reported range, Hall considered that the data was more segmented than was the data from some other surveys, that the range was relatively narrow, and that the average fell near the midpoint. As he did when using the PwC data in determining an overall rate, he also accounted for his belief that while the subject property was the type that an institutional-grade investor might acquire, it was debatable whether an investor would buy it as part of a portfolio. *Ex. A at 160-64; Ex. C at 156-63; Tr.at 419-21, 658-61, 675-77.*

108. After deducting the FF&E's contributory value, Hall's discounted-cash-flow analyses yielded real property values of $8,150,000 for 2020 and $7,590,000 for 2021. For 2020, he reconciled his direct capitalization and discounted cash flow conclusions to a value of $8,100,000. *Ex. A at 160-64; Ex. C at 156-63.*

iv. Reconciliation

109. Hall reconciled his conclusions under the three approaches to an indicated value for each year:

	Cost	**Sales-Comparison**	**Income**	**Reconciled**
2020	$7,980,000	$7,900,000	$8,100,000	$8,000,000
2021	$7,770,000	$7,400,000	$7,590,000	$7,500,000

Although Hall gave weight to each of the three approaches, he gave the greatest weight to his conclusions under the cost and income approaches. He believed that the usefulness of his sales-comparison analyses was limited due to the uncertainties associated with quantifying and deducting the contributory value of the business enterprise. Hall also attempted to account for market obsolescence in his reconciled value for 2021, which was $270,000 below his conclusions under the cost approach. But he did not explain how he did that. *Ex. A at 100, 138-40, 165-67; Ex. C at 102, 127, 141-43, 164-67; Tr. at 290-91, 423-24, 485-86, 517.*

IV. CONCLUSIONS OF LAW AND ANALYSIS

A. Kinser had the burden of proving the subject property's correct true tax value.

110. Generally, an assessment determined by an assessing official is presumed to be correct. 2021 REAL PROPERTY ASSESSMENT MANUAL at 3. A party challenging the assessment has the burden of proving that the assessment is incorrect and what the correct assessment should be. *Piotrowski v. Shelby Cty. Ass'r*, 177 N.E.3d 127, 131-32 (Ind. Tax Ct. 2021).[5]

111. In Indiana, assessments are based on a property's "true tax value." True tax value does not mean fair market value. I.C. § 6-1.1-31-6(c). Nor does it mean the value of the property to the user. I.C. § 6-1.1-31-6(e). Subject to these somewhat tautological directives, the Legislature relies on the Indiana Department of Local Government Finance ("DLGF") to define true tax value. I.C. § 6-1.1-31-6(f).

112. Given mandates from the Indiana Supreme Court and Legislature, the DLGF has created a valuation standard that relies heavily on what it terms as objectively verifiable data from the market, but that still maintains the notion of property wealth gained through utility and therefore recognizes situations where true tax value will differ from market value. The

[5] Indiana Code § 6-1.1-15-17.2 creates an exception to the general rule that the party challenging an assessment has the burden of proof. The 2020 assessment of ($7,491,200) was $200 less than the 2019 assessment ($7,491,400). *Ex. 6*. Similarly, the 2021 assessment ($6,707,600) was far below the $8,000,000 value that we, as the last reviewing authority to have considered the 2020 assessment, determine for that year. Therefore, the statute has no application here.

DLGF defines true tax value as "the market value-in-use of a property for its current use, as reflected by the utility received by the owner or by a similar user, from the property." 2021 REAL PROPERTY ASSESSMENT MANUAL at 2; 2011 REAL PROPERTY ASSESSMENT MANUAL at 2. The DLGF's Real Property Assessment Manual offers further guidance, defining "market value-in-use," "value-in-use," and "use value," as being synonymous. 2021 MANUAL at 6-8; 2011 MANUAL at 6-8. But it also states that a property's true tax value will equal its value-in-exchange when properties are frequently exchanged and used for the same purposes by the buyer and seller. 2021 MANUAL at 2; 2011 MANUAL at 2. Thus, true tax value is something other than purely market value or value-in-use.

113. Parties to an appeal may offer various types of market-based evidence to prove a property's true tax value, including USPAP-certified appraisals estimating the property's market value-in-use. *Eckerling v. Wayne Twp. Ass'r*, 841 N.E. 2d 674, 678 (Ind. Tax Ct. 2006). The evidence must reliably show the property's value as of the relevant valuation date. *O'Donnell v. Dep't of Local Gov't Fin.*, 854 N.E.2d 90, 95 (Ind. Tax Ct. 2006). For the 2020 and 2021 assessment years, the valuation dates were January 1, 2020, and January 1, 2021, respectively. I.C. 6-1.1-2-1.5(a)(2); I.C. § 6-1.1-4-4.5(f).

B. We find Hall's opinions of the subject property's true tax value more persuasive than Clemson's opinions.

114. These appeals present a difficult valuation question. Hotels like the subject property are seldom, if ever, bought solely for the real estate. They are instead bought as going concerns that also include personal (FF&E) and intangible (business enterprise) property interests. Both appraisers attempted to tease out the value of the subject real estate from the going concern. In some ways, their methodologies were similar. For example, they both relied heavily on the income approach in their conclusions, using the Rushmore method to exclude the value of the business enterprise.

115. But we find that Hall was more thorough in his analyses and better explained his underlying judgments. And for some key judgments, Hall relied on market data that was more tailored to the market segment in which the subject property competes than the

market data on which Clemson relied. That extends to Hall's judgment about how the market would have valued the subject property in light of the COVID-19 pandemic. He relied on market analyses and projections that were further removed from the depths of the pandemic, and that therefore likely better reflected market thinking near the relevant valuation date, than did the analyses and projections on which Clemson relied. And for 2020 at least, Hall's analysis under the cost approach, which automatically excludes non-realty interests, offered support for his conclusions under the other two approaches.

1. Both appraisers' methods for addressing the subject property's PIP were reasonable, and their differences on that issue do not significantly factor into our ultimate determination.

116. With that overview in mind, we turn to the specifics underlying our decision. We begin with an issue over which the parties and their experts hotly debated: how to address the subject property's impending Formula Blue PIP.

117. In all his approaches, Clemson treated the property as if the PIP was, or would be, completed. For his sales-comparison and direct-capitalization analyses, he then adjusted his value conclusions by discounting to present value the estimate of the PIP's cost that Kinser's principal, Kenneth Edwards, provided. Hall, by contrast, did not believe that he had reliable enough data to support Edwards's estimate. In any case, the Formula Blue PIP was a Holiday Inn Express—rather than a market—requirement. And Hall did not believe that it would be practical to estimate a market-based PIP for the subject property. He instead treated the property as an upper-midscale limited-service hotel that would lose some of its competitive appeal (in the form of reduced market penetration) as it continued to age.

118. Each approach has strengths and weaknesses. Clemson's approach more closely mirrors market behavior. Hotels like the subject property invariably operate under national flags, which all require PIPs. Even Hall acknowledged that any buyer would have anticipated the property undergoing a PIP, whether that be a Formula Blue PIP to maintain its existing flag or a different PIP to operate as a franchisee under a different flag.

119. But Kinser offered little support for Edwards' $2 million cost estimate for the subject property's PIP beyond Clemson's secondhand reference to Edwards' previous experience with PIPs and the fact that a different Holiday Inn Express from Clemson's sales-comparison analysis had undergone a Formula Blue PIP that cost $1.5 million. Neither Clemson nor Kinser, however, offered anything to show how Edwards arrived at his estimate. And PIPs vary from property to property, even among hotels sharing the same flag. More importantly, under the market value-in-use standard, we are not valuing the property specifically as a Holiday Inn Express-flagged hotel.

120. Also, Clemson essentially treated the PIP solely as an expense without any benefit beyond maintaining the property's Flag. We credit Hall's opinion that an extensive PIP would lead to improvements in at least one of two performance metrics: occupancy rate or ADR. And Clemson agreed that PIPs often boost occupancy. But in his 2020 appraisal, he tied his occupancy projections to the subject property's historical rates, allowing for the increased competition from the three new hotels (La Quinta Inn, Graduate Hotel, and Home2Suites) and the loss of the Cook Medical contract. And he kept those projections static throughout the holding period, even after the PIP's anticipated completion date. While he increased his projected ADR, he did so only to account for inflation.

121. We are not particularly swayed by Clemson's primary reason for keeping his occupancy rate and ADR static (other than adjusting for inflation): that the subject property was already outperforming its competitive set. While that might be true, it likely says as much about whether Clemson selected appropriate properties for his competitive set as it does about how the completion of a PIP would affect the subject property's performance metrics. The subject property had not had a PIP since it was built in 2006, so it was long overdue for a refresh. If nothing else, one would expect the completion of the PIP to help offset Clemson's posited increase in competition from the three new hotels. We give even less weight to Clemson's post-hoc justification—that any increase in occupancy following the PIP's completion would be offset by disruptions while it was being implemented.

122. Hall's approach eliminates those problems and at least theoretically better adheres to the market value-in-use standard by treating the property as an upper-midscale limited-service hotel independent of any specific flag. Although Hall ideally would have been able to estimate a market-based PIP for the subject property, we credit his explanation as to why that would have been impractical. His solution—to treat the hotel as not undergoing a PIP and therefore suffering a decline in its market penetration over time—appears to be an appropriate alternative under those circumstances. Indeed, his lower occupancy rates led him to project lower revenue in his 2020 appraisal than Clemson projected. While Hall did not project lower revenues than Clemson in his 2021 appraisal, that was because he concluded that market participants would have forecast the hotel market recovering from the pandemic faster than what Clemson concluded.

123. Hall's projections of the hotel's occupancy rates as a function of its declining competitive market appeal was admittedly subjective. But he believed it was more reliable and practical than attempting to quantify a PIP. We have no reason to doubt his opinion. Nonetheless, Hall's approach adds an extra layer of theoretical projection to a valuation question that is already substantially divorced from market realities. Both appraisers had to extract the value of the real property component from a going concern when market participants generally do not separately value that individual component. On top of that, Hall projected income as if an upper-midscale limited-service hotel would age indefinitely without undergoing a PIP, even though virtually all such hotels are flagged and periodically undergo PIPs as a precondition of maintaining their flags or of operating under a different upper-midscale flag.

124. Given each approach's strengths and weaknesses, we find that they are both reliable, if less than ideal, ways to address the issues posed by the subject property's impending PIP, and the differences in those two approaches play little part in our ultimate finding that Hall's valuation opinions were more persuasive than Clemson's.

125. With that in mind, we now turn to other key components where Clemson and Hall differed from each other and where we find Hall's judgments, analysis, and conclusions more persuasive than Clemson's.

2. Hall's analysis of the relevant market and of the subject property's competitive position within that market are more persuasive than Clemson's analysis.

126. We begin with the appraisers' differing analyses of the market segment in which the subject property competes, and of the property's relative competitive position within that market. Those analyses were central to the appraisals and formed the basis for many judgments the appraisers made, including their income and expense projections.

127. We find that Hall's analysis was more nuanced, better reasoned, and better supported than Clemson's analysis. Hall gave weight to data that captured more aspects of the subject property's competitive position beyond its upper-midscale flag. While both appraisers considered the CBRE trends report that broke down data by regional location, room size, and room rate, Hall also considered the property's location in a small market near an interstate.

128. We are also persuaded by Hall's analysis of the subject property's competitive set and its projected performance. While there was some overlap between the hotels the two appraisers selected for their respective competitive sets, there were also two differences: Clemson included a Quality Inn and the TownePlace Suites located next to the subject property, while Hall included the new La Quinta Inn and a Comfort Inn near the university.

129. We are more persuaded by Hall's choices. Clemson himself acknowledged that the Quality Inn was inferior and that he only included it because it was in the STAR report Kinser gave him. While Kinser disagreed with Hall's conclusion that the TownePlace Suites was not a primary competitor of the subject property, we find Hall's reasoning for excluding that hotel from his competitive set persuasive. Although the two hotels share some characteristics, including their location, the TownePlace Suites is an all-suites hotel, while only 32 out of 102 guest rooms at the subject property are suites. We credit Hall's

testimony that the TownePlace Suites and other extended-stay hotels are designed to cater primarily to business travelers, who typically rent rooms for multiple days, or even weeks at a time.

130. We recognize that before the pandemic, the majority of the subject property's occupancy consisted of business or corporate travelers, including ones from the Cook Medical contract. Indeed, Clemson relied heavily on the subject property's historical performance in projecting its income and expenses, including penalizing the property for its loss of that contract. We do not fault Clemson for giving weight to the subject property's performance history—it is relevant to projecting the property's market performance going forward. But in estimating the market value-in-use of the fee simple interest in the subject property, we are ultimately concerned with how market participants would anticipate the property to perform, assuming competent management. We do not consider contractual interests, such as the Cook Medical contract, that the property's existing management has procured (or lost). Thus, despite the historical mix of guests at the subject property, we are more persuaded by Hall's conclusion that the property likely would compete with the other hotels in his competitive set primarily for leisure travelers. Clemson himself acknowledged that corporate travelers prefer to stay at extended-stay hotels like TownePlace Suites.

131. We do not share Kinser's concerns about the hotels that Hall included in his competitive set. It is difficult to argue with Hall's inclusion of the La Quinta Inn. Clemson himself believed that the La Quinta Inn's opening had affected the subject property's occupancy rate. As for the Comfort Inn, while Kinser argued that it did not consider that property to be of similar quality as, or competitive with, the subject property (*Pet'r Br. at 27*), it offered no evidence to support that claim.[6] The only evidence about the hotels' comparative quality came from Hall, who testified that they were of similar quality.

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[6] Kinser appears to be relying on statements made by its tax representative about his opinion of the Comfort Inn's relative quality while cross-examining Hall. *See Tr. at 551-54.* The tax representative did not testify to the facts or opinions contained in those statements. Indeed, he was not sworn as a witness. *Tr. at 5.*

132. We likewise disagree with Kinser's claim that, because the Comfort Inn was smaller and older than the subject property, it skewed Hall's data. To the contrary, Hall explained that the two hotels were in similar condition: the Comfort Inn was significantly renovated one year after the subject property was built, and the subject property has not been significantly renovated since that time.

133. Aside from those differences, we are also more persuaded by Hall's in-depth analysis of the subject property's relative market appeal within the competitive set and his corresponding projections of occupancy, ADR, and RevPar. That is true for both years at issue. Our preference for Hall's projections only increases for 2021, where the appraisers were faced with the additional difficult task of determining how market participants would likely have projected performance within the various segments of the lodging market less than a year into an unprecedented global pandemic. Once again, in making his projections, Hall primarily relied on a CBRE analysis assessing the lodging market's pandemic-related decline that was more finely segmented than the PwC analysis on which Clemson based his projections or the HVS analysis that Kinser offered as an exhibit. More importantly, the PwC analysis looked at the market from the perspective of May 2020, at the height of the pandemic-related disruptions, while the CBRE analysis was from November 2020, which was much closer to the January 1, 2021, valuation date. And the outlook was not as dire at that point.

134. We recognize, as Kinser points out, that Hall's competitive set had RevPar of $32.34 for 2020, which represented a 46.9% decline from 2019. That was close to the PwC report's prediction of a 53.1% decline. But as Hall pointed out, it was an annualized decline, which included lost revenue from when hotels were shut down. Nonetheless, the competitive set's RevPar hovered around $35 for most of the last half of the year. And its occupancy rate and ADR also showed relatively steep year-over-year declines for the second half of 2020, although the data for December 2020 was comparable to the same month in 2019. Regardless, we still credit Hall's view that the PwC report's predictions were from a more pessimistic vantage point than what faced market participants by January 2021.

135. We similarly disagree with Kinser's argument that the Indiana Department of Health's COVID-19 dashboard, which Hall included in his 2020 appraisal, leads to a different conclusion. While that dashboard shows a short-lived spike in cases beginning in November 2020, it does not alter our conclusion that Hall better captured how the market likely projected the lodging industry's recovery from the pandemic. Unlike Kinser, we do not impute any sinister motive to Hall including the dashboard in his 2020 appraisal but leaving it out of his 2021 appraisal. *See Pet'r Br. at 39.*

3. Hall's analyses and conclusions under the income approach were more persuasive than Clemson's.

136. All of the factors we have discussed contributed to Hall more reliably projecting net operating income for the subject property than Clemson did. And a reliable projection of net operating income is central to developing a credible value conclusion under the income approach, whether using direct capitalization or a discounted-cash-flow analysis. But the appraisers also differed over other key analytical components, such as their discount and residual rates.

137. Although the appraisers settled on discount rates for 2020 that were relatively far apart, we find that they both supported their chosen rate. Both relied at least partly on survey data from PwC, although Clemson relied on the survey for third quarter 2019, while Hall relied on the survey from first quarter 2020. Hall's rates adhere more closely to the trends from that survey than Clemson's do. That is because Clemson also relied on interviews with brokers who indicated that discount rates should be roughly 200 basis points higher than overall rates. Clemson also accounted for the fact that the PwC survey involves mostly institutional-grade properties, while in his view, the subject property is not institutional grade because of its location in the Bloomington market. For 2020, his discount rate was 45 basis points higher than PwC's average rate, but it was still well below the top of the range. Hall, by contrast, viewed the property as generally institutional grade, although he had doubts about whether an institutional investor would buy it on a standalone basis. And he chose PwC's average rate. Without more information, we are hard pressed to determine which is the more persuasive view, and we find that both are reasonable.

138. We reach a different conclusion for 2021, however. For that year, Clemson chose an un-stabilized discount rate that was 220 basis points higher than the average from the PwC survey data for third quarter 2020 and 230 basis points higher than the average for first quarter 2021. Indeed, it was at the top of PwC's range. More importantly, Clemson's 2021 stabilized and un-stabilized discount rates were also 50 and 100 basis points higher, respectively, than the rate he used for 2020. Clemson attributed the increased rate to the uncertainty in the lodging market stemming from the COVID-19 pandemic. As Hall credibly explained, however, that was not how the market was responding to the pandemic at the end of 2020. We therefore find Hall's discount rate for 2021, which again was the average reported by PwC, more reliable than Clemson's.

139. The appraisers also used different residual rates. Although the rates were relatively close to each other for their 2020 appraisals (9.75% for Clemson, 9.33% (unloaded) for Hall), there was a much larger spread for 2021. Clemson increased his rate to 10.25% in the wake of the pandemic, while Hall decreased his to 9.1% (unloaded), which was in line with the trend reported by the PwC surveys. As with the appraisers' discount rates, we find that both appraisers' residual rates were reasonably supported for 2020 but that Hall's rate was more persuasive for 2021. We give no weight to Kinser's criticism that Hall's residual rates were lower than his discount rates despite "the risk of real estate ownership and the 10-year horizon." *Pet'r Br. at 28-29*. Clemson's residual rates were also lower than his discount rates. In any case, the PwC surveys reflect average residual rates that were lower than average discount rates.

140. Finally, Clemson did not explain his reason for including property taxes as an expense and using unloaded discount and residual rates in his discounted-cash-flow analyses. As the Tax Court has explained, when valuing a property for property tax purposes, deducting taxes as an expense "distorts the final estimate of value." *Millennium Real Estate Inv., LLC v. Benton Cty. Ass'r*, 979 N.E.2d 192, 197 (Ind. Tax Ct. 2012) (*citing e.g., City of New Brunswick v. State of N.J. Div. Tax Appeals*, 39 N.J. 537, 189 A.2d 702, 706-07 (1963)).

That is because the amount of property taxes depends precisely on the value that is sought. *New Brunswick*, 189 N.E.2d at 707.

141. In sum, we find Hall's conclusions under the income approach more reliable than Clemson's conclusions. Hall more reliably projected income and expenses, and we are more persuaded by his choice of discount and residual rates for 2021. And unlike Clemson, Hall's discounted-cash-flow analyses did not distort the property's value by deducting property taxes as an operating expense.

4. Hall's analyses and conclusions under the sales-comparison approach were more persuasive than Clemson's.

142. Because we are dealing with an income-producing property, both appraisers gave their conclusions under the income approach significant weight. But they both also applied the sales-comparison approach. Once again, we find Hall's analyses more persuasive.

a. Clemson included sales that were not typically marketed, did not bracket the subject property, and were from the height of the pandemic.

143. Clemson's conclusions under the sales-comparison approach were not very reliable, even as a cross-check on his conclusions under the income approach. None of the comparable sales from his 2020 appraisal bracketed the subject property, and two were not even exposed to the market through formal listings. One was offered only to a select group of buyers, and another was sold after the buyer approached the owner. We do not give much weight to Clemson's justification for using those sales: a broker's or other contact's assurance that the sale prices were at market levels. The main reason sale prices for comparable properties are useful is that they show how market forces have interacted to value substitute properties, leading to the expectation that those forces would produce a similar price for the property being appraised. But where market forces have been prevented from operating, such as where a property has not been sufficiently exposed to potential buyers, the sale price is less useful. A broker's opinion that the price paid by a buyer was the same as what the market would have generated had it been allowed to

operate is a poor substitute, particularly where we have nothing to show the basis underlying that opinion.

144. Clemson's 2021 analysis suffered from an even bigger problem: two of the four sales were from March 2020. That was at the height of the COVID-19 pandemic when projections about the lodging industry's future were at their bleakest and most uncertain. The sale closest to the valuation date—a Fairmont Inn that sold in September 2020—was an auction. Once again, Clemson simply relied on a broker telling him that the price was basically at market. While it is conceivable that auction sales composed the market for hotels during parts of 2020, neither Clemson nor Kinser offered evidence to establish whether that was the case. As with his 2020 appraisal, Clemson's sales did not bracket the subject property but were instead all inferior to it. Clemson himself conceded that he gave his conclusions under the sales-comparison approach little weight in his overall value opinion for 2021.

b. Hall's sales bracketed the subject property, and he explained his adjustments and other judgments to a greater degree than Clemson did.

145. We have much greater confidence in Hall's sales-comparison analyses. Unlike Clemson's appraisals, there is no indication that Hall's sales were marketed in anything other than a typical commercial manner. And they bracketed the subject property in many respects. While Kinser criticizes Hall because he did not quantify his adjustments by applying a mathematical formula to specific market data, Clemson did not do so either. Hall explained that he looked at the underlying data and broad trends and relationships, and that he used his experience to come up with what he believed were reasonable quantifications of how the market valued relevant differences between properties. Indeed, he explained the bases for his adjustments and other judgments in greater detail than Clemson did. Kinser also criticized one specific adjustment that Hall made: his market conditions adjustment in his 2021 appraisal. *Pet'r Br. at 25*. But Hall based his adjustment on the CBRE study. And we have already explained why we credit his views on that study's applicability.

146. All things being equal, it would have been better to use sales from close to the January 1, 2021 valuation date. But Hall could not find those sales, and we have already explained

why we do not believe that using sales from the height of the pandemic would have been a reliable approach. Thus, Hall used the best available alternative, which we find was sufficiently reliable to yield a credible value conclusion.

c. *By applying a business-enterprise adjustment, Hall may have slightly underestimated the property's value under the sales-comparison approach.*

147. We do see some merit in Kinser's criticism of how Hall calculated his adjustment to deduct value attributable to the business enterprise. To do so, Hall capitalized projected management and franchise fees, which he explained is consistent with the Rushmore approach. He could not simply take a projected franchise fee from his income approach, however. Under that approach, Hall had mirrored CBRE's reporting methodology by projecting a single expense entry for sales and marketing that included a franchise fee as an undifferentiated component. He therefore looked to the Smith Travel Host data, which reported franchise fees as a line item, for purposes of calculating his business-enterprise adjustment.

148. But Hall used the franchise fees reported for limited-service hotels in the East North Central region segment rather than the much higher fees reported for the upper-midscale segment. By contrast, his projected sales-and-marketing expense under the income approach, which considered data for the various segments that described the subject property's market position, landed solidly within the range of the overall data and near Smith Travel's data for the upper-midscale segment. Hall also applied a 20% capitalization rate for which he offered little support.

149. That said, we still find that Hall's conclusions under the sales-comparison approach support his overall valuation opinions. Hall noted the appraisal profession's lack of consensus about the degree of business-enterprise value in going-concern transactions for hotels and about the Rushmore approach as the appropriate way to account for that value. More importantly, he acknowledged that he could have been accounting for more business-enterprise value than the buyers of his comparable properties had in mind, which would explain why his conclusions under the sales-comparison approach were lower than his

conclusions under the other two approaches. Indeed, Clemson did not adjust his conclusions under the sales-comparison approach because he assumed that hotel buyers base their offers on financials for the hotels that deduct franchise and management fees (and therefore business-enterprise value). That mutes any concerns that Hall's use of the lower franchise fee and possibly inflated capitalization rate in computing his adjustment skewed his value conclusions. If anything, his adjustment may have caused him to slightly underestimate the property's value under the sales-comparison approach.

150. In short, we find that Hall's analyses under the sales-comparison approach were far more persuasive than Clemson's analyses. And despite the shortcomings of Hall's business-enterprise adjustment and the lack of sales from near the 2021 valuation date, we find that his conclusions under the sales-comparison approach reasonably support his overall value opinion for each year.

5. <u>Hall's conclusions under the cost approach support his ultimate valuation opinion for 2020.</u>

151. Finally, unlike Clemson, Hall applied the cost approach to analyze the subject property's value. We find that to be a very useful approach, at least for 2020. We are not persuaded by Clemson's reasons for choosing to forego that approach. Although Clemson professed an inability to find comparable land sales, Hall was able to find comparable sales that Kinser did nothing to impeach. In a vacuum, we might give some credence to Clemson's concerns about the difficulty in estimating depreciation for a hotel that was 13 years old as of the 2020 valuation date. But that did not stop him from estimating the hotel's physical depreciation elsewhere in his 2020 appraisal.

152. More importantly, the cost approach's inherent exclusion of non-realty components and its elimination of the need to deal with the property's impending PIP makes that approach particularly useful for the valuation question at issue. Clemson's decision to eschew the cost approach, even as a secondary check on his conclusions under the income approach, therefore adds to our opinion that Hall's overall analysis is more detailed and persuasive.

153. Turning to Hall's application of the cost approach, we find his conclusions from his 2020 appraisal reliable. Hall identified the underlying data he relied on and supported the various judgments he made in applying that data. Kinser did little to impeach that data or those judgements. While Kinser points to the subjective nature of Hall's adjustments to his comparable land sales, we credit Hall's explanation that there are seldom mathematical formulas for quantifying adjustments. He instead applied his knowledge and experience to trends in data that he was able to gather. And Hall was more forthcoming in discussing the analysis underlying his adjustments than Clemson was in describing his adjustments.

154. As for the improvements, Kinser extensively cross-examined Hall about his decision to classify the hotel building as being of "good" construction quality. Hall credibly explained his choice, pointing to various features matching the description of a "good" quality hotel in Marshall Valuation's cost guide. Not all the features matched, however. And several of the features that did match the cost guide's description of a "good" quality hotel matched its description of an "average" quality hotel as well. Of course, others matched the description of an "excellent" quality hotel. In any case, we credit Hall's testimony that "good" quality construction is typical for a property that competes in the upper-midscale segment of the local hotel market. On the whole, therefore, we are persuaded by Hall's judgment that Marshall Valuation's cost data for a "good" quality class C limited-service hotel best reflects the subject hotel's replacement cost new. That is particularly true given the lack of any expert opinion to the contrary.

155. But we do not give much weight to Hall's conclusions under the cost approach for 2021. While he acknowledged that the property suffered from external market obsolescence stemming from the COVID-19 pandemic, he believed that the obsolescence was too difficult to quantify. He instead chose to account for that obsolescence when reconciling his conclusions under the three valuation approaches. Yet he offered nothing to explain exactly how the obsolescence factored into his reconciliation. We simply know that he settled on a valuation opinion that was $270,000 below what he concluded under the cost

approach. Under those circumstances, his cost-approach analysis lends little weight to his valuation opinion.

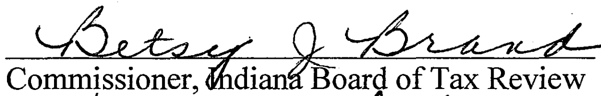
156. Nonetheless, we still find his opinion for 2021 more persuasive than Clemson's opinion. We disagree with Kinser's argument that given the subject property's more than 30% decline in revenue between 2020 and 2021, a "less than 10% impact [from the pandemic] is unbelievable." *Pet'r Br. at 39*. Again, the property's value as of the January 1, 2021 valuation date depends less on its revenue during 2020 than on what market participants likely would have predicted its revenue to be going forward. Indeed, Kinser's own appraiser, Clemson, valued the property at only 10.8% less for 2021 than he did for 2020.

V. CONCLUSION

157. We find that Hall's valuation opinions are more persuasive than Clemson's opinions. We therefore find that the subject property's true tax value was $8,000,000 for the 2020 assessment date and $7,500,000 for the 2021 assessment date. And we order the assessments to be changed to match those values.

We issue this Final Determination on the date written above.

Chairman, Indiana Board of Tax Review



Commissioner, Indiana Board of Tax Review

Commissioner, Indiana Board of Tax Review

- APPEAL RIGHTS -

You may petition for judicial review of this final determination under the provisions of Indiana Code § 6-1.1-15-5 and the Indiana Tax Court's rules. To initiate a proceeding for judicial review you must take the action required not later than forty-five (45) days after the date of this notice. The Indiana Code is available on the Internet at <http://www.in.gov/legislative/ic/code>. The Indiana Tax Court's rules are available at <http://www.in.gov/judiciary/rules/tax/index.html>.