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Hotel Income and Sales of Hotels Have Been Down Since COVID, but Counties Continue to Place High Real Property Values on Many of These Properties

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During the COVID-19 pandemic, hotels nationwide experienced an 85% drop in gross operating profit and a 103% decline in net operating income (*Boston University Hospitality Review*, "Hotels in Financial Distress and their Resolution," June 2021). Some estimates have hotel values declining as much as 35%, depending on the characteristics and location of the hotel, with a full recovery not expected until sometime in 2024. While hotels are recovering, some hotel types have seen payroll costs that have outpaced revenue growth, which also has slowed the recovery of hotel value.

Yet, many county assessors have been placing values on area hotels that surpass pre-COVID-19 values. For example, in Franklin County, Ohio, the county recently reappraised some area hotels for tax year 2023 real property tax purposes at values that exceeded what these hotels were transferring for in the open market and for more than what the hotel's income could support. One upper scale hotel was assessed at a value of \$166,673 per room. However, a review of the hotel's net income, combined with a review area sales, indicated a value of \$131,850 per room. Vorys was able to secure a reduction in value that will save the hotel owner approximately \$120,000 per year in real property tax.

Not all hotels are created the same. Hotel type, size, location and net income all contribute to the value of the real estate. However, given that hotel real estate generally has not seen a full recovery in this post COVID market, hotel operators are encouraged to seek out a review of their real estate tax expense. For many states, time is short to seek review.

Vorys has assisted hotel operators throughout Ohio and the nation and would be happy to help with a real property value review.