



Analysis of The Hotel Bentley, The Alexander Fulton Hotel, and The Alexandria Riverfront Center

Present and Future Value

DRAFT

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- The Value of the Alexandria Riverfront Center

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A. The Hotel Bentley

1. Value of the Hotel Bentley in 2004 as continuously operating single-use facility:

Considering the closure of the Hotel Bentley in 2004, it might be insufficient to determine value based on standard net operating income formulations, wherein the NOI is divided by a market capitalization rate.

According to the owner, during its final year of operation, the Hotel Bentley maintained a 60% occupancy rate with an average daily rate of \$57 (Numbers are approximate).

Its value as a “straight hotel” in 2004, using the owner’s numbers (for that year alone) breaks down as follows:

$$178 \text{ rooms} \times 60\% \text{ occupancy} \times \$57 \times 365 \text{ days} = \$2.22\text{M}$$

Expenses may vary, of course, but as a general rule, overhead should account for no more than 69% of gross revenues.

$$\$2.22\text{M} \times 69\% = \$1.52\text{M}$$

$$\$2.22\text{M} \text{ minus } \$1.52\text{M} = \$700,000$$

Net Operating Income (before debt service): \$700,000

In order to determine a baseline for the value of an income-producing property, the NOI should be divided by the market capitalization rate. According to HotelNewsNow¹, the market cap rate for hotel properties is expected to decline. The lower the cap rate, the higher the value of the property. Currently, most Real Estate Investment Trusts (REIT) with hotel properties trade with rates higher than 10%.

Assuming the Hotel Bentley in 2004 would qualify for a cap rate of 10%, we can derive a baseline value as follows:

$$\$700,000 \text{ divided by } 0.1 = \$7,000,000$$

Thus, the value of the Hotel Bentley, when it operated in 2004, was around \$7.0M.

2. Value of the Hotel Bentley in 2009 as single-use facility:

Determining the Hotel Bentley’s present value as a single-use hotel is slightly more complicated. Because the business ceased operations four years ago, investors would likely

¹ <http://www.hotelnewsnow.com/Articles.aspx?ArticleId=985&ArticleType=1&PageType=Today>
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discount its 2004 value in order to account for additional start-up costs and deferred maintenance.

A fair discount for the Hotel Bentley, as a single-use hotel, would be 30% to 40%.

Therefore, present value of the Hotel Bentley as a single-use hotel would be between \$4.2M to \$4.9M.

Notably, this estimate does not include the NOI of the hotel's bar and restaurant, which could slightly increase value.

Engineering and hotel management consultants have indicated to the COA that the Hotel Bentley is in need of several million dollars in repairs and renovations. A Property Improvement Plan (PIP) is necessary and is a better practice than merely relying on engineering and hotel management consultants. The hotel's current owner has indicated his interest in joining the City in obtaining a PIP. These costs are not included in this assessment.

3. Replacement Cost of the Hotel Bentley:

Value can also be determined by simply calculating the total replacement cost of the hotel. This value does not represent a fair market value; it simply illustrates how much it would cost, in today's market, to construct an identical facility.

The formula for determining replacement cost, at its core, is based on price per square foot.

Local residential construction costs range between \$90 to \$120 per square foot.

Hotel construction costs depend on the markets in which they are built. It's much more expensive, for example, to build a hotel in New York City than in Winston-Salem, North Carolina. Considering there is little objective data on hotel construction costs in Central Louisiana, at least data that could be considered comparable to the Hotel Bentley's construction, it is more instructive to consider a range of construction costs in other markets. The table below was created by Reed Construction Data in June of 2008². Since then, costs have likely risen between 2.2% to 5.0%.

² <http://www.reedconstructiondata.com/news/2008/07/construction-cost-increases-for-fouraccommodation-style-building-categorie/>

U.S. DOLLARS PER SQUARE FOOT CONSTRUCTION COSTS – BY TYPE OF STRUCTURE – JUNE 2008

MAJOR CITIES (alphabetically)	HOTEL (4 TO 7 STORIES)			HOTEL 8 TO 24 STORIES		
	2008	2007	% Change	2008	2007	% Change
	1 ATLANTA	\$131.95	\$127.47	3.5%	\$130.44	\$124.07
2 BALTIMORE	135.41	131.21	3.2%	133.86	127.71	4.8%
3 BOSTON	170.56	164.64	3.6%	168.60	160.25	5.2%
4 CHICAGO	167.67	160.48	4.5%	165.75	156.20	6.1%
5 CLEVELAND	146.64	142.03	3.2%	144.96	138.24	4.9%
6 DALLAS	124.60	120.39	3.5%	123.18	117.18	5.1%
7 DENVER	139.44	134.96	3.3%	137.84	131.36	4.9%
8 DETROIT	151.40	148.41	2.0%	149.66	144.45	3.6%
9 HOUSTON	127.92	125.52	1.9%	126.45	122.18	3.5%
10 KANSAS CITY	152.26	145.91	4.4%	150.52	142.02	6.0%
11 LOS ANGELES	158.17	152.57	3.7%	156.36	148.50	5.3%
12 MIAMI	131.95	127.88	3.2%	130.44	124.47	4.8%
13 MINNEAPOLIS	163.21	158.40	3.0%	161.34	154.17	4.7%
14 NEW ORLEANS	128.64	124.69	3.2%	127.16	121.37	4.8%
15 NEW YORK CITY	194.76	184.89	5.3%	192.52	179.96	7.0%
16 PHILADELPHIA	168.25	162.00	3.9%	166.32	157.68	5.5%
17 PHOENIX	130.65	126.91	2.9%	129.16	123.53	4.6%
18 PITTSBURGH	145.35	140.50	3.4%	143.68	136.76	5.1%
19 PORTLAND	149.81	146.61	2.2%	148.10	142.70	3.8%
20 ST. LOUIS	151.83	147.02	3.3%	150.09	143.10	4.9%
21 SAN DIEGO	154.57	149.52	3.4%	152.80	145.53	5.0%
22 SAN FRANCISCO	181.36	172.96	4.9%	179.28	168.35	6.5%
23 SEATTLE	151.97	147.44	3.1%	150.23	143.51	4.7%
24 WASHINGTON, DC	146.50	140.23	4.5%	144.82	136.49	6.1%
25 WINSTON-SALEM	115.24	112.49	2.4%	113.92	109.49	4.1%

MAJOR CITIES (alphabetically)	MOTEL (2 TO 3 STORIES)			APARTMENT BUILDING (4 TO 7 STORIES)		
	2008	2007	% Change	2008	2007	% Change
	1 ATLANTA	\$139.78	\$136.66	2.3%	\$135.38	\$131.46
2 BALTIMORE	143.44	140.67	2.0%	138.93	135.33	2.7%
3 BOSTON	166.60	176.51	4.4%	175.00	169.00	3.1%
4 CHICAGO	177.63	172.05	3.2%	172.04	165.51	3.9%
5 CLEVELAND	155.35	152.27	2.0%	150.46	146.48	2.7%
6 DALLAS	132.00	129.07	2.3%	127.85	124.17	3.0%
7 DENVER	147.72	144.69	2.1%	143.07	139.19	2.8%
8 DETROIT	160.38	159.11	0.8%	155.34	153.06	1.5%
9 HOUSTON	135.51	134.57	0.7%	131.25	129.46	1.4%
10 KANSAS CITY	161.30	156.43	3.1%	156.22	150.49	3.8%
11 LOS ANGELES	167.55	163.57	2.4%	162.28	157.36	3.1%
12 MIAMI	139.78	137.10	2.0%	133.38	131.69	2.8%
13 MINNEAPOLIS	172.90	169.82	1.8%	167.46	163.36	2.5%
14 NEW ORLEANS	136.27	133.68	1.9%	131.99	128.60	2.6%
15 NEW YORK CITY	206.32	198.22	4.1%	199.83	190.69	4.8%
16 PHILADELPHIA	178.24	173.68	2.6%	172.63	167.08	3.3%
17 PHOENIX	138.41	136.06	1.7%	134.05	130.89	2.4%
18 PITTSBURGH	153.97	150.63	2.2%	149.13	144.91	2.9%
19 PORTLAND	158.70	157.18	1.0%	153.71	151.20	1.7%
20 ST. LOUIS	160.84	157.62	2.0%	155.78	151.63	2.7%
21 SAN DIEGO	163.74	160.30	2.1%	158.59	154.21	2.8%
22 SAN FRANCISCO	192.12	185.43	3.6%	186.08	178.38	4.3%
23 SEATTLE	160.99	158.07	1.8%	155.93	152.06	2.5%
24 WASHINGTON, DC	155.19	150.34	3.2%	150.31	144.62	3.9%
25 WINSTON-SALEM	122.08	120.60	1.2%	118.24	116.01	1.9%

Data source: Reed Construction Data – RSMeans/Charts; Reed Construction Data – CanaData.

These charts and tables were abstracted from RSMeans cost data publications for the A/E/C industry. For more information about RSMeans Square Foot Cost Guide and RSMeans CCI (Construction Cost Index), which indexes square foot costs for cities in the U.S. and Canada, visit the online bookstore at www.rsmeans.com and click on cost data publications (or call 1-800-448-8182).

Although the Hotel Bentley has an eight-story lodging tower, it seems more logical to calculate replacement value using construction data for hotels between four and seven floors. Furthermore, considering Alexandria is not a destination market, it also seems logical to use numbers in small to mid-sized markets in the American South, of which there are only two: New Orleans and Winston-Salem.

Assuming construction costs trends follow the same pattern they did from 2007 to 2008, hotel construction in New Orleans would be \$138.85 per square foot (a 1.9% increase), and construction in Winston-Salem, North Carolina would be \$123.55 (a 1.2% increase).

Therefore, the replacement cost (at least as defined by market-based construction costs) for the Hotel Bentley could be estimated by the following formula:

Winston-Salem market: 169,000 square feet x \$123.55 = \$20.9M New

Orleans market: 169,000 square feet x \$138.85 = \$23.4M

It is important to note these numbers do not reflect the exceptional building materials used in the Hotel Bentley, which could increase replacement costs by as much as 15% to 25%.

Moreover, fair market values for income-generating properties are more appropriately determined by *the value of the business*, not the value of the building.

4. Value of the Hotel Bentley in 2009 as a mixed-use facility:

While the potential of the Hotel Bentley as a mixed-use facility seems to present the most logical way of ensuring long-term success and viability, it also presents the biggest challenge in determining a range of values.

Such an evaluation must employ multiple evaluation methods, including a projected NOI for a 90-room boutique hotel, commercial lease rates, and residential lease rates.

Projecting the NOI of a 90-room boutique hotel is an exercise in hypotheticals. It must make numerous assumptions about room rates, market viability, and the overall performance of the regional hotel market. For this reason, it is more instructive to provide a range of values, each defined by different variables.

a. Assumption A: 90-room boutique hotel:

By roughly transposing the hotel's 2004 numbers for the entire 178-room hotel, assuming identical occupancy and daily rates, a 90-room hotel could be evaluated as follows:

90 rooms x 60% occupancy x \$57 x 365 days = \$1.12M

\$1.12M x 69% = \$775,194

$$\$1.12\text{M} - \$775,194 = \$344,806$$

Net Operating Income (before debt service): \$344,806 Projected Business Value

(using a 10% market capitalization rate): \$3.45M

b. Assumption B: 90-room boutique hotel

Considering ownership was able to achieve a 60% occupancy rate with nearly double the number of rooms, it seems logical to assume that the occupancy rate would increase in a boutique hotel located in the same facility. Moreover, it can also be assumed that average daily rates would increase, exceeding or at least equaling rates charged at other local hotels.

$$90 \text{ rooms} \times 75\% \text{ occupancy} \times \$105 \times 365 \text{ days} = \$2.59\text{M}$$

$$\$2.59\text{M} \times 69\% = \$1.79$$

$$\$2.59 - \$1.79 = \$800,000$$

Net Operating Income (before debt service): \$800,000

Projected Business Value (using a 10% market capitalization rate): \$8.0M

Notably, a well-performing boutique hotel, with nearly half of the rooms currently in the Hotel Bentley, could be a much more valuable business than the Hotel Bentley was in 2004.

c. Assumption C: Commercial, retail, and residential units in the “new tower”

The so-called “new tower” is approximately 52,000 square feet (6,500 square feet per floor, 8 floors) and could be subdivided to provide limited retail, commercial, and residential opportunities.

In this model, the top two floors of the Hotel Bentley would be renovated into rental “corporate condominiums.” For the purposes of determining possible value, the 13,000 square feet in the top two floors will simply be divided into fifteen individual units (866 square feet per unit) at a market rate of \$1,500 per month.

$$15 \text{ units} \times \$1,500 \times 12 = \$270,000$$

$$\$172,800 \times 69\% = \$186,300$$

$$\$270,000 - \$186,300 = \$83,700$$

Net Operating Income (before debt service): \$83,700

The remaining 39,000 square feet of the new tower would be renovated for commercial tenants. Although no determination has been made on the number of commercial units required, as a general rule, commercial space typically rents for \$16 to \$18 per square foot. Of course, some of this space will be utilized for hallways, mechanical storage, etc. Assuming the tower would have 31,000 square feet of usable commercial space, value can be determined by the following:

$$31,000 \text{ square feet} \times \$17 \text{ per square foot} \times 12 \text{ months} = \$6.3\text{M}$$

$$\$6.3\text{M} \times 69\% = \$4.35\text{M}$$

$$\$6.3\text{M} - \$4.35\text{M} = \$1.95\text{M}$$

Net Operating Income (before debt services): \$1.95M

To calculate the value of the proposed Bentley Tower, the NOI of the residential component should be added to the NOI of the commercial component, then divided by a different market capitalization rate, 8% instead of 10%. (These numbers assume 100% occupancy).

$$\$83,700 + \$1.95\text{M} = \$2.04\text{M}$$

Projected Business Value (using an 8% market capitalization rate): \$25.54M

d. Assumption D: Total Value of mixed-use facility:

The total projected business value of a mixed-use facility could range between \$28.99M to \$33.54M, which, significantly, is *between \$1M to \$11M higher than its current replacement cost.*

Moreover, a mixed-use facility could generate an annual net operating income of approximately \$2.75M.

5. Value of the Hotel Bentley as a successful single-use hotel:

Notwithstanding the Hotel Bentley's economic cycles as a single-use hotel facility, it is instructive to consider the potential value of the Hotel Bentley as a well-performing single-use hotel.

Assuming the Hotel Bentley can maintain a 70% occupancy at a \$95 average daily rate, its business value can be determined as follows:

$$178 \text{ rooms} \times 70\% \text{ occupancy} \times \$95 \times 365 = \$4.32\text{M}$$

$$\$4.32\text{M} \times 69\% = \$2.98\text{M}$$

$$\$4.32\text{M} - \$2.98 = \$1.34\text{M}$$

Net Operating Income (before debt service): \$1.34M

Projected Business Value (using a 10% market capitalization rate): \$13.4M

6. Single-Use Versus Mixed-Use:

Based on this preliminary analysis of projected gross and net operating incomes, a mixed-use solution offers many notable advantages:

- a. It guarantees the Hotel Bentley remains in commerce for numerous business cycles, even if its hotel business fails.
- b. It introduces a residential component in Downtown Alexandria.
- c. The projected business value of a fully-functioning mixed-use facility far exceeds the value projected for a successful, single-use hotel.
- d. It ensures continuous use of the entire Hotel Bentley facility.
- e. All of these projections exclude the potential of a reopened Bentley Room Restaurant and Mirror Room Bar, which, if managed properly, will create additional value, jobs, and opportunities in Downtown Alexandria. Moreover, in a mixed-use model, the viability of a restaurant and bar is not necessarily contingent on the success of the hotel.

B. The Alexander Fulton Hotel

The Alexander Fulton's highest and best use is as a single-use hotel facility. However, determining the business value of the Fulton is challenging, particularly considering the City of Alexandria's ownership of the ground floor, restaurant, and meeting room facilities, and the significant repairs needed to restore a flag to the facilities.

A visual inspection of the property and discussions with current management reveal numerous issues that must be immediately addressed in order to ensure the financial solvency of the hotel.

Currently, the Alexander Fulton has 145 rooms in service; there are 25 additional rooms deemed unfit for occupancy.

For the purposes of this analysis, business value will be determined strictly by analyzing current and potential net operating income, also taking into account the substantial costs a future developer will incur in order to restore the hotel to flag standards (\$2.5M to \$3.5M).

The Alexander Fulton's success is heavily dependent on convention center events. According to the Convention and Visitors Bureau, the Alexandria Riverfront Center is booked for conventions approximately 120 days a year, many of which are likely booked for local events.

1. Current Value of the Alexander Fulton:

Although the hotel is currently advertising daily room rates at \$95, a more appropriate ADR, with which to make value determinations, is \$75. Occupancy is often less than 25%.

Because of these conditions, a fair evaluation must assume that higher occupancy during conventions offsets vacancies during the majority of the year.

Therefore, the present value of the Alexander Fulton can be determined as follows:

$$145 \text{ rooms} \times 25\% \text{ occupancy} \times \$75 \times 365 \text{ days} = \$992,344$$

or

$$145 \text{ rooms} \times 75\% \text{ occupancy} \times \$75 \times 120 \text{ days (peak convention center business)} = \$978,750$$

These are hypothetical numbers; however, they represent a "best guess" as to the overall yearly performance of the Alexander Fulton Hotel.

$$\$992,344 \times 69\% = \$684,717$$

$$\$992,344 - \$684,717 = \$307,627$$

Net Operating Income (before debt services): \$307,627

Projected Business Value (using a 10% market capitalization rate): \$3.1M

2. Real Estate Value of the Alexander Fulton:

As the analysis above indicates, the projected business value of the Alexander Fulton Hotel is approximately \$3.1M. However, due to the hotel's significant renovation needs, new ownership would need to invest between \$2.5M to \$3.5M, depending on the quality of the flag they wish to pursue.

A well-known flag is critical to the success of the Alexander Fulton, because, unlike the Hotel Bentley, the Fulton is not an historic, well-recognized hotel with built-in brand name equity. A well-known flag also provides ownership with a vast network of referrals and can immediately increase occupancy.

Although the projected business value of the current business is \$3.1M, it would require a total investment of between \$5.6M to \$6.6M. Because of this, the current projected business value should be discounted by 30% to 40%, in which case the fair market value should be considered between \$1.86M to \$2.17M.

3. Potential Value of the Alexander Fulton Hotel:

Once renovations are completed and a flag is restored to the Alexander Fulton, the hotel could easily become a successful enterprise, provided also that the Alexandria Riverfront Center maximizes its convention business.

This analysis considers a best-case scenario, in which all current obstacles are overcome and renovations are completed.

Provided the Fulton attracts a quality flag, average daily rates can easily exceed \$125, still \$25 less than the rates offered locally.

**170 rooms (all rooms have been returned to commerce) x 60% occupancy x \$75 x 365 days =
\$2.8M**

$\$2.8M \times 69\% = \$1.93M$

$\$2.8M - \$1.93M = \$868K$

Net Operating Income (before debt services): \$868K

Projected Business Value (using a 10% market capitalization rate): \$8.68M

C. The Alexandria Riverfront Center

Like the Alexander Fulton Hotel, the public also has a significant and vested financial stake in the success of the Alexandria Riverfront Center, which was constructed more than a decade ago with nearly \$20M in public dollars.

As envisioned, the Riverfront Center was intended to complement and augment the business conducted at the adjacent and adjoining hotels, and the center's success is both literally and figuratively tied to the overall viability of Alexandria's Convention/Hotel complex.

The Value of the Alexandria Riverfront Center:

Because it is a publicly-constructed and publicly-owned facility, determining the value of the Riverfront Center does not follow a simple formula.

However, if one were to consider the basic performance of the Riverfront Center and employ a private-sector evaluation formula, the center's business value would break down as follows:

$$\$71,138 \text{ (through October)} + \$7,116 \text{ (projected income in November and December)} = \$78,254$$

Net Operating Income: \$78,254

Projected Business Value (using a 7% market capitalization rate): \$1.17M

Replacement Cost: 130,000 square feet x \$110 per square foot = \$14.3M

D. Total Present and Potential Values

1. Present Values:

Hotel Bentley: \$4.2M - \$4.9M Alexander

Fulton: \$1.86M - \$2.17M Riverfront

Center (business): \$1.17M

TOTAL: \$7.23M - \$8.24M

2. Potential Future Values:

Hotel Bentley: \$28.99M to \$33.54M

Alexander Fulton: \$8.68M

Riverfront Center (business, doubling present value): \$2.34M

TOTAL: \$40.01M - \$44.56M

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