Valuation Viewpoint

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Real estate taxes: Calculation methodology and trends

By Wendy S. Cell, Vice President and Robert J. Strachota, MAI, MCBA, CRE®, President, Shareholder

Real estate taxes vary widely throughout the Twin Cities area for many reasons. The primary factors that determine property taxes are the tax levies of the district the property is in, the value of the property relative to the value of all other properties in the district, and the use of the property. Real estate taxes are calculated based upon the market value of the property. Market value is the probable price a property should sell for assuming the buyer and seller are well informed and neither is under duress. There is no direct relationship between estimated market value and property tax liability. Instead, the property's taxable market value is used to determine how much property tax is due. If your property's value increased or decreased, it may affect the amount of property taxes you owe.

Rising property values increase the proportion of your property's value that is subject to tax and decreasing property values lower the taxable amount of your property. While property taxes are supposed to rise and fall with property values, it is common that even when the economy is down, property taxes may rise. If governmental spending is reduced, less money is needed from taxpayers, and property taxes might

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Check out Shenehon's new website and marketing video

Shenehon has launched a new website that features a recently completed video on our company. Take a minute to stop by www.shenehon.com and see the video and other features on the revamped website.

Market Trends and Indicators

Office Buildings–Downtown	↑	3.0%
Office Buildings–Suburban	→	0.0%
Retail Centers	↑	2.0%
Industrial Buildings	↑	2.0%
Apartments	↑	3.0%
New Housing Starts–Midwest	↑	30.3%
Productivity	↓	2.2%
US Unemployment	↓	5.0%
Consumer Confidence Index	↓	96.2

In This Issue ...

Pipelines and hostage tenants

By John T. Schmick, Vice President, Director of Special Projects

Many appraisers believe that current valuation problem origins can be traced back to relatively recent economic events; the latest recession, the latest building boom, the latest commodity over-supply condition, the most recent financing crisis, etc. Occasionally, the origins of a current valuation problem can be traced back decades to a period when appraisal and market knowledge were insufficient to anticipate that agreements executed at that time would create huge valuation issues down the road. Perhaps people were more trusting fifty years ago than today.

The problem with these legacy license agreements is not what terms and conditions are included in the agreements, it is what has been left out of the agreements.

In the second half of the 1950s and the 1960s, hundreds, if not thousands, of miles of pipelines were built to support growth of the United States. Some of those pipelines were built on land owned by railroads, either in the excess land parallel to active tracks or on vacant rail lines where rail service was discontinued. The most common type of pipeline is for petroleum products (classified as a hazardous liquid material). While the names of the entities have changed over the years, these agreements have remained in place and unchanged with the exception of rent increases or additional pipelines covered by the agreement. The agreements signed between the railroad entity (railroads) and the pipeline companies are the source of valuation legacy problems faced by these industries today.

Agreements signed between the railroad entity and pipeline companies decades ago are the source of valuation legacy problems faced today.

For the purpose of this article, the pipeline companies may be referred to as tenants and the railroad entities may be referred to as landlords or property owners.

The typical pipeline agreement from this era takes the form of a license. A license differs from an easement or lease on several significant points.

- First, a license does not convey any property rights. Rather, it is defined as "… a personal, unassignable, … privilege or permit to perform some activity on the land of another without obtaining an interest in the property."[1] In this case, the activity is to build and operate a hazardous liquid product pipeline.
- Second, these pipeline licenses are cancelable at any time. Either party can cancel the license for any reason with written notice, typically 90 days.
- Third, there typically is no end date for the agreement. As a practical matter, as long as the tenant pays rent, the agreement stays in place. This is effectively a tenancy at will.

The problem with these legacy license agreements is not what terms and conditions are included in the agreements, it is what has been left out of the agreements. The first issue is that the agreements are often non-exclusive and the pipeline location is undefined. For example, a license may permit a 12-inch pipeline on the property but it cannot interfere with landlord's use of the property. As result, if the railroad wants to rent space for a competing pipeline, the railroad can order the first tenant to move its pipeline to accommodate the competing pipeline with the full cost of moving the pipeline facility borne by the existing pipeline owner. The tenant has no protection from unreasonable demands to move their pipeline, including moving the pipeline partially off the property. For example, if the landlord wants to rent space to an outdoor advertising sign and requires an existing pipeline to move 100 feet of pipeline off the property to make room for the sign.

Secondly, in many cases the width of the pipeline occupancy is not defined. As a result, the capacity of any strip of railroad land to grant pipeline licenses is limited only by a reasonable safety margin between pipelines. This applies to both horizontal and vertical clearances as pipelines can be stacked or cross over each other. Current industry references to parallel pipeline safety clearances indicate a minimum clearance of two feet. However, at some point, additional pipeline occupancies in a given area create safety issues and operational inefficiencies as representatives of adjacent pipelines need to be present when work is performed on a pipeline in close proximity.

Third, is the lack of any process that protects the pipeline owner from an unreasonable demand for rent increase. Typically, there is no provision for arbitration, mediation, or a neutral third party decision process like a panel of three appraisers. As a result, the license is structured as a "pay up or get off" agreement. Consider the following example[2]:

- Current annual pipeline license rent of $10,000.
- After ten years, the railroad increases the annual rent to $300,000 (equal to 40.5% annual increase over ten years).

In this example, the tenant has three basic options. First, the tenant could try to negotiate a lower rent. However, since the license is a tenancy at will, they have no real power to force a compromise. Thus, the first option is to pay the new rent.

The second option is to decline the rent demand and move off the railroad's property. This is the most costly option as construction of new pipelines can run into millions of dollars per mile, may require eminent domain action to acquire a new route and involves regulatory review that can take years.

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Market Trends and Indicators

Economic Indicator

	2009	2010	2011	2012	2013	2014	2015	MARCH 2016
New Housing Starts—Midwest Yearly Totals	97,600	99,400	102,700	135,000	156,800	165,200	171,700	34,800

P/E Ratios in Select Industries

Industry (by year)	2010	2011	2012	2013	2014	2015
Basic Materials	15.0	16.0	10.7	10.4	11.8	*
Construction	5.3	5.8	6.5	7.1	6.0	6.3
Manufacturing	8.5	10.4	10.2	9.4	9.8	6.4
Wholesale Trade	6.6	8.3	7.4	9.6	8.5	5.5
Retail Trade	5.1	4.9	5.1	6.2	6.3	4.4
Transportation & Warehousing	6.7	5.9	5.6	5.6	5.8	6.1
Information	10.2	11.5	11.3	6.8	15.2	9.3
Finance & Insurance	9.3	7.2	6.4	7.1	8.1	6.2
Professional Services	7.8	10.2	7.3	7.9	9.9	5.4
Healthcare	5.8	9.3	5.2	6.9	6.6	3.5

* Insufficient data

Economic Indicators

Indicator (5 yr. avg.)	2005	2010	2011	2012	2013	2014	DEC 2015	MARCH 2016
Inflation	3.4%	1.6%	3.1%	2.1%	1.5%	1.6%	1.4%	0.7%
Productivity	1.8%	1.5%	0.8%	0.9%	0.0%	0.7%	2.1%	2.1% (Feb)
GDP	3.1%	3.0%	1.7%	2.2%	1.9%	2.4%	2.4%	2.4% (Dec)
Consumer Confidence	107.2	62.0	70.8	72.2	78.1	92.6	115.3	96.2

Unemployment

	2000	2005	2010	2011	2012	2013	2014	2015	MARCH 2016
US	**4.0%**	**5.3%**	**9.4%**	**8.5%**	**7.8%**	**6.7%**	**5.6%**	**5.0%**	**5.0%**
Northeast	4.0%	4.9%	8.4%	8.0%	8.1%	7.3%	5.6%	4.9%	4.7%
Midwest	3.5%	5.7%	8.7%	7.9%	7.2%	6.9%	5.6%	4.7%	4.8%
South	4.0%	5.2%	9.3%	8.4%	7.3%	6.7%	5.2%	5.2%	4.9%
West	4.6%	5.5%	11.0%	8.5%	8.6%	7.6%	6.3%	5.4%	5.1%
Minnesota	**2.9%**	**4.5%**	**7.0%**	**5.7%**	**5.4%**	**4.6%**	**3.6%**	**3.5%**	**3.7%**

Rates of Return and Risk Hierarchy

Investment	
30 Year Treasury	2.6%
Aaa Bond	3.7%
Bbb Bond	4.9%
Commercial Mortgage	4.0–5.25%
Institutional Real Estate	5.75–7.0%
Non-Institutional Real Estate	8.0–10.0%

Investment	
S & P Equity (Duff & Phelps)	9.5%
Equipment Finance Rates	10.0–12.0%
Speculative Real Estate	11.0–16.0%
NYSE/OTC Equity (Duff & Phelps)	13.1%
Land Development	12.0–25.0%
NYSE Sm Cap. Equity (Duff & Phelps)	18.3%

Sources: Appraisal Institute, Business Week, Value Line, U.S. Chamber of Commerce, Standard & Poors, Investment Dealers Digest, U.S. Government Census, Bureau of Labor Statistics, Duff & Phelps, PwC Real Estate Investor Survey, The Conference Board, Pratt's Stats®.

Pipelines and hostage tenants *continued from page 3*

The agreements often lack a process to protect the pipeline owner from an unreasonable demand for rent increase. Typically, there is no provision for arbitration, mediation, or a neutral third party decision process.

The third option is to enter into litigation to take a permanent easement for the in-place location of the existing pipeline. This option can be time consuming and costly with an unknown level of risk on the outcome.

Ultimately, many pipeline companies, and other longitudinal users of excess railroad land select the first option to avoid the huge cost of moving their pipeline or other facilities such as fiber optic lines or power lines. With a license agreement structured as a "pay up or get off," this becomes a forced sale, or hostage tenant situation. In appraisal terms, we view this as a forced sale, defined as "offering and transferring property for a value consideration under conditions of compulsion."[3] Transactions that qualify as forced sales do not meet the definition of a market transaction and should be disqualified from further consideration in a valuation assignment.

Conclusion

Railroads have historically offered their excess land to utility companies and other longitudinal users as a means to generate additional income from their rail corridors. These agreements often take the form of a license to use the railroad's property. As with all written real estate documents, the appraiser needs to review the documents for their potential impact in current valuation assignments. Recent transactions and current demands for rent increases, based on legacy agreements, may not meet current definitions of market transactions if there is no protection for the tenant in a "pay up or get off" scenario.

As the hostage tenant condition described in this article becomes more widely known in the appraisal industry and utility industries, we anticipate an increase in litigation seeking to restore negotiation balance between (railroad) landlords and (pipeline) tenants. VV

1 The Dictionary of Real Estate Appraisal, Fifth Edition, p. 113
2 This example is a composite of real events that uses exaggerated values for illustrative purposes.
3 The Dictionary of Real Estate Appraisal, Fifth Edition, p. 82

Bob Strachota delivers presentation at Business Law Institute

Shenehon Company President Bob Strachota was a featured speaker at the 2016 Business Law Institute, on May 2 and 3 in Minneapolis. The event was sponsored by the Minnesota CLE and the MSBA Business Law Section. Mr. Strachota's presentation was titled, "The Condition of Business and Real Estate Asset Values."

Shenehon improves P/E ratio data in its Market Trends and Indicators report

The P/E ratios listed on page 4 of this *Valuation Viewpoint* are now based on Pratt's Stats®, a subscription service geared toward private company transaction data. Pratt's Stats is the leading private company merger and acquisition (M&A) database and includes financial details on more than 23,000 acquired private companies.

be reduced. Conversely, if spending is increased, taxes may increase. Other factors include voter-approved referenda, local government aid, value of other properties in the city, and value of properties within tax increment financing districts.

Shown below is a summary of the taxable market value in Minneapolis from 2008 through 2016 and the effective tax rate for commercial properties from 2011 through 2016.

Minneapolis Real Estate Values

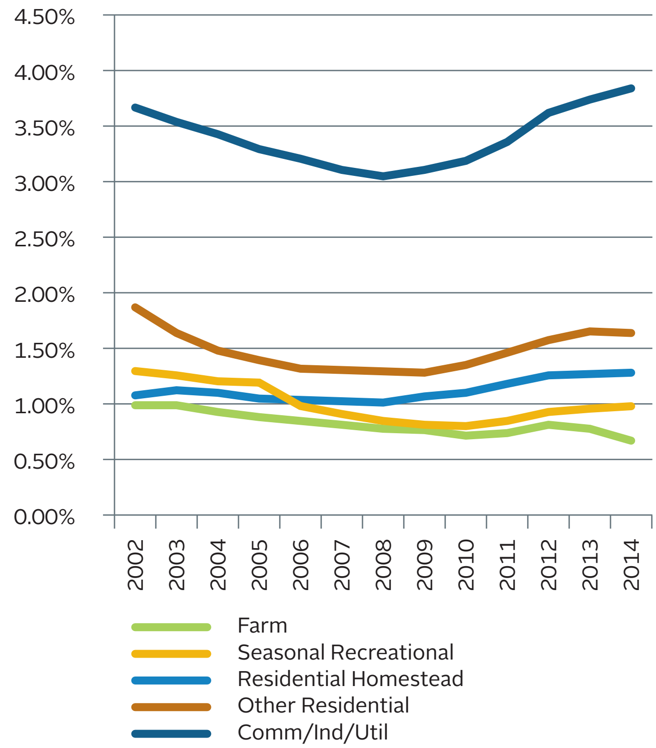
Payable Year	Taxable Market Value	Commercial Property Effective Tax Rate
2008	$37,464,486,605	
2009	$37,551,697,890	
2010	$36,584,364,830	
2011	$34,481,236,680	3.99%
2012	$31,681,399,863	4.24%
2013	$30,613,110,741	4.40%
2014	$31,295,246,021	4.44%
2015	$34,746,505,707	4.24%
2016	$38,589,101,006	4.01%

One could presume that values will continue to increase as new construction continues and new projects enter the market, and thus tax rates are likely to decline. However, the overall proposed Minneapolis property tax levy for 2016 will increase 3.4 percent over 2015. Property taxpayers in Hennepin County will see an increase of 4.48 percent in 2016 over 2015. These increases reflect demands for quality services provided to residents. Yet, not everyone's property tax bill will increase by the same rate. As shown in the chart in the next column, prepared by the Minnesota Department of Revenue, the effective tax rate is usually between 3 percent and 4 percent for commercial property.

Building owners often compare their real estate taxes to their competitors' real estate taxes. They do this using a particular unit of comparison used by participants in the market, such as real estate taxes per unit, per door, or per square foot. While on the surface this practice seems reasonable, real estate taxation is complicated, and as a result, this comparison should not be an owner's primary benchmark.

Minnesota Property Tax Rates

Source: Minnesota Department of Revenue



The assessor sets a market value on every property each year. The assessor uses a mass appraisal process. As a result, assessors rely on general market data. Even though Minnesota statute requires the assessor to value each property on a fee simple basis (unencumbered with existing leases or assuming leases in place are at market levels), providing specific building information to the assessor may be useful in valuing a specific building. The actual performance of an income-producing property is typically more indicative of the property's submarket. However, without the owner's proprietary information, assessors have a diminished ability to account for differences within market sectors.

As the economy strengthens, more sales transactions are occurring. The sale price of a property is often the best evidence of market value. As market participants, the buyer and seller know the components that make up the sale price. Some of these items are not real estate and, therefore, are not taxable for property tax purposes. Examples of these items are: personal property, fixtures, representations and warranties, maintenance contracts, etc. It is the responsibility of the buyer to notify and educate the assessor of the components that affect a sale price. Otherwise, the assessor will presume the total sale price represents taxable real estate value. VV

Economic impact of a walkable location

Professionals in the real estate industry have heard for several years about the growing societal preference for walkable communities, where residents live within blocks of commercial enterprises, parks and/or public transit, and are not reliant on automobiles. For example, a study conducted by Transportation for America reported that 80 percent of 18- to 30-year olds want to live in a walkable neighborhood. Furthermore, the results of an AARP survey in 2012 revealed that about 60 percent of respondents over 50 years of age desire to live in a location within one mile of daily goods and services. Combine the results of these studies with existing demographic trends and it's clear: there is demand for walkable communities.

Although recent studies and demographic trends confirm that demand is increasing for walkable communities, the questions of whether there is an economic benefit to a having walkable location and the magnitude of this economic benefit continue to linger.

- In 2014, a report prepared by the George Washington University Center for Real Estate and Urban Analysis concluded that office space in walkable urban areas in the nation's 30 largest metropolitan areas commands a 74 percent per square foot rent premium over comparable office space in drivable suburban areas.
- A study conducted by the Brookings Institute in 2012 concluded that when a location moves from "fair" to "good" walkability:
  - Average office rent per square foot increases by $8.88
  - Average retail rent per square foot increases by $6.92
  - Retail sales increase by 80%
  - Average residential rent per month increases by $301.76
  - Average for-sale home value per square foot increases by $81.54
- According to 2016 research from the Minneapolis Area Association of Realtors, the median home value in a Minneapolis neighborhood adjacent to a mass transit line was significantly higher ($220,000) than homes in the community not on the transit line ($194,000).
- According to Walk Score—an organization that measures the walkability of any address and awards points for pedestrian friendliness— one point higher in a walk score increases a home's value by $500 to $3,000. VV

4th quarter 2015 economic and real estate recap

(Editor's note: This article summarizes highlights from Shenehon's 4th Quarter 2015 market reports. The entire, in-depth reports are available at www.shenehon.com under the "Articles" tab.)

According to the latest Beige Book, seven of the 12 Federal Reserve Districts, including the Minneapolis District, reported increasing economic activity in the 4th quarter. Economic activity in four of the remaining five districts was noted as mixed or flat.

Construction, business investment, and consumer spending continued to take on leadership roles in driving the domestic economy, while global economic concerns and conditions in the oil/gas industry and manufacturing sector continued to serve as drags on more robust growth. Fostering growth in the construction sector, the pace of homebuilding has begun to accelerate and commercial construction activity remains strong. Business investment and consumer spending levels also remain encouraging, with conditions in the labor market continuing to tighten.

Construction, business investment and consumer spending continued to drive the domestic economy, while global economic concerns and conditions in the oil/gas industry and manufacturing sector were drags on growth.

The energy industry has been hamstrung by a glut of supply, resulting in lower commodity prices. In the state of North Dakota, the number of active drilling rigs has fallen to the lowest levels observed since 2009. Spot prices for West Texas Intermediate and Brent crude both declined by over 30.0% in 2015, putting significant pressure on producers, with retail gasoline prices falling by an annual average of roughly 26.8%, providing considerable relief to consumers and supporting healthy retail sales.

All segments in the manufacturing sector have been impacted to varying degrees by the strength of the dollar, as international export levels at several major ports have sagged.

Although the overall economy expanded for the 81st consecutive month in February 2016, activity in the manufacturing sector contracted for the 5th consecutive month in this period, yet nine of 18 manufacturing industries continued to report growth. According to the ISM Report on Business, the manufacturing sector showed some improvement in February of 2016 compared to year-end 2015, but the Purchasing Manager's Index (PMI) remained below the pivotal 50.0% mark. The PMI registered 49.5% in February 2016, up from 48.0% in December of 2015, but down from 52.9% recorded in February 2015.

A strong dollar and the downturn in the oil and gas industry are also adversely affecting conditions in the manufacturing sector, with choppy and uneven results recorded across the manufacturing sector during the year. Manufacturers that rely on oil as an input cost have fared relatively well, while companies that provide goods to oil and gas companies have lagged. All segments in the manufacturing sector, however, have been impacted to varying degrees by the strength of the dollar, as international export levels at several major ports have sagged.

Several other economic indicators remain mixed. Activity in the non-manufacturing sector increased for the 73rd consecutive month in February 2016, with the Non-Manufacturing Index (NMI) standing at 53.4%, yet the most recent NMI readings have fallen below the rolling 12-month average of 56.6%. After falling by 0.3% in December 2015, the Conference Board Leading Economic Index also slipped another

0.2% to 123.7 in January 2016. In spite of rising concerns, most economic indicators continue to signal modest economic expansion in the months ahead.

Employment - While representing a slight deceleration from the 2.2% increase recorded in 2014, non-farm employment at the national level increased by 2.0% year-over-year in December 2015 on the net addition of over 2.7 million jobs. Conditions in the labor market are healthy in the majority of major markets. Non-farm employment increased by over 3.0% annually in 18 of the largest 84 metropolitan areas during the year, with 16 of the 18 markets also boasting unemployment rates below 5.0%.

Asking rents in the national apartment market continued on an upward trend in 2015, marking the sixth consecutive year of asking rent growth in excess of 2.5%.

For-Sale Residential - Sales activity and prices increased by sizeable margins in the national for-sale residential market during the year. Existing home sales activity increased by 6.3% in 2015, compared to a decline in 2014. Activity within both the single-unit and multi-unit segments showed improvement, as demand has rebounded for townhome and condominium product.

Apartment Market - Facilitated by healthy employment growth and favorable demographic trends, the apartment market continues to remain strong at the national, regional, and local levels, in spite of a wider new construction pipeline. Asking rents at the national level continued on an upward trend in 2015, marking the 6th consecutive year of asking rent growth in excess of 2.5%, while vacancy rates remained essentially unchanged.

CRE Market - Fundamentals across the industrial, office, and retail sectors continue to demonstrate improvement, with the most robust growth recorded within the industrial sector. Led by demand for logistics space, market conditions in the industrial sector at the national, regional, and local levels continued to improve in 2015. Strong absorption figures are driving vacancy rates lower, putting upward pressure on asking rents. Absorption in the office sector has been supported by a healthy pace of employment growth within the traditional office-using employment sectors. Vacancy rates in office sector continue to trend downward, putting upward pressure on asking rents. In spite of the rise in e-commerce and the pursuit of smaller footprints by retailers, the retail sector also noted positive absorption in 2015. Combined with a more restrained pace of new development activity, demand for retail space facilitated improvements in occupancy levels and asking rents.

CRE Market: Fundamentals across the industrial, office and retail sectors continue to demonstrate improvement, with the most robust growth recorded within the industrial sector.

Fueled by improving to strong underlying fundamentals, the availability of low interest rate financing, and attractive yields relative to alternative investments, investment activity in the commercial real estate market remained strong in 2015. Sales volume for property and portfolio sales of more than $2.5 million increased for the 6th consecutive year in 2015, with sales volume increasing on a year-over-year basis in three of the four major property types. The strongest year-over-year growth in sales volume was recorded within the industrial sector, yet overall sales volume continued to be led by the apartment and office sectors.

Data referenced in this report was current as of March 7, 2016, and includes preliminary employment numbers as reported by the Bureau of Labor Statistics, which are subject to revision. VV

Market Transaction: Real Estate

RSM Plaza (formerly McGladrey Plaza)

Property:	RSM Plaza and Ramp 801 Nicollet Mall, Minneapolis, MN 55402	
Sale date:	December 18, 2015	
Zoning:	B4-2	
Seller:	United Properties Investment, LLC	
Buyer:	Golub + Company	
Sources:	Certificates of Real Estate Value, Hennepin County, City of Minneapolis	
Sale Price:	Total price	$78.35 million
	Price per square foot	$188.42
Building size:	415,824 square feet (Class B office tower and 850-stall parking ramp)	

Remarks: This property was put on the market in 2008 but did not sell. One of the primary reasons there was no sale in 2008 was that the site was encumbered by a ground lease that was set to expire in 2066. With a lease having a time horizon of just over 50 years, it negatively impacted the marketability of the site. As a result, in 2015 the seller successfully renegotiated a lease extension for an additional 47 years, effectively creating a new 99-year lease. It is also important to note that the land lease covered portions of the entire parcel but not all of the building and ramp improvements. In the renegotiation effort, both sides agreed that the land under lease should be considered as a larger parcel during future valuation adjustments. With the new ground lease in place, the market viewed the property as being synonymous with properties that owned the in the land fee simple interest.

Sale price: With the sale price of $188.42 per square foot, McGladrey Plaza, a Class B asset, traded hands at a price higher than the adjacent IDS Tower, a Class A asset, which sold in April 2013 for $178 per square foot. The RSM Plaza sale price is an indication of how aggressive buyers are in acquiring trophy-like assets in the heart of the Minneapolis Central Business District.

Market Transaction: Business Valuation

Marriott International announces acquisition of Starwood Hotels & Resorts Worldwide

2015 set a record for merger and acquisition activity. With $4.7 trillion in announced transactions, 2015 surpassed the previous record of $4.4 trillion in 2007. According to Thompson Reuters, there were 137 mega-deals, defined as transactions over $5 billion. These mega-deals comprised more than half of the volume in 2015. Among these deals were AB Inbev's acquisition of SABMiller, the Dow Chemical and DuPont merger and the Pfizer and Allergan merger, each of these being over $100 billion in volume.

While not as large as these three deals, another transaction that drew significant media attention was Marriott International's (NASDAQ: MAR) announced acquisition of Starwood Hotels & Resorts Worldwide (NYSE: HOT), creating the world's largest hotel company. The acquisition was announced in November 2015 and is expected to close in mid 2016. This is a synergistic purchase expected to increase value for both Marriott and Starwood shareholders. The combined companies operate and franchise more than 5,500 hotels with over 1.1 million rooms. Marriott expects significant cost savings to be realized within the first two years of closing.

The outlook for the hospitality industry is generally positive with an expected growth rate of 5% per year for the next five years. However, the industry is facing new competition in companies such as Airbnb and HomeAway, short-term home rental websites. Many companies in the industry are focusing on growth internationally and growth through acquisitions. This deal increases Marriott's international presence by approximately 75% due to Starwood's significant global footprint.

In November 2015, Marriott agreed to acquire Starwood for $12.2 billion, consisting of $11.9 billion in stock and $320 million in cash. This may seem expensive as Marriott paid about 16.5% above Starwood's listed stock price of $68.55 per share (October 26, 2015, prior to acquisition rumors). For the year ending December 31, 2014, Starwood generated revenues of $5.983 billion with EBITDA (earnings before interest, taxes, depreciation and amortization) proximate to $1.166 billion, or 19.5% of revenue. This translates to an EBITDA multiple of 10.46x. Generally, hotels sell for EBITDA multiples between 8x to 10x, and have an EBITDA margin of around 24.2%. Although Starwood's margin was less than the industry average, Marriott will pay a multiple just above the average industry range because the company expects cost savings that will fully offset the premium paid. If these cost savings are realized, Marriott effectively increases its international presence at no cost.

Marriott has been fueling its growth in the last few years with other acquisitions as well, though none of this magnitude. The company paid approximately 10x EBITDA for Delta Hotels and Resorts (Canada) in early 2015, Protea Hotel Group (Africa) in mid 2014 and Gaylord Hotels (U.S.) in late 2012. After the Starwood deal closes, Marriott will have 30 brands across all lodging segments.

Target:	Starwood Hotel & Resorts Worldwide, Inc. (Stamford, CT)
Buyer:	Marriott International, Inc. (Bethesda, MD)
Transaction Date:	Announced Nov 2015, Expected Close Mid 2016
Transaction Price:	$12,200,000,000 (Cash and Stock)

	Target	Industry
Dec 2014 Revenues (in Millions)	$5,983	
Dec 2014 EBITDA (in Millions)	$1,166	
Profit Margin	19.5%	24.2%
EBITDA Multiple	10.46×	8–10×
Industry Range (in Millions)	$9,328	$11,660
Transaction Price (in Millions)	$12,200	

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VALUATION VIEWPOINT NEWSLETTER INSIDE

SHENEHON COMPANY IS A REAL ESTATE AND BUSINESS VALUATION FIRM, serving both the private and public sectors throughout the United States. Our unique combination of real estate and business valuation expertise allows us to provide a wide range of services and to offer innovative solutions to difficult valuation issues. Obtaining accurate and reliable industry information and expertise should play a key role in any decision-making process, and Shenehon Company is dedicated to equipping its clients with the tools necessary to make informed and knowledgeable decisions regarding their capital investments.

Areas of Expertise:

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- Bankruptcy proceedings
- Charitable donations
- Commercial properties
- Condemnation
- Contamination impact studies
- ESOP/ESOT
- Estate planning
- Feasibility analyses
- General and limited partnership interests
- Gift tax evaluations
- Going public or private
- Highest and best use studies
- Industrial properties
- Insurance indemnification
- Intangible asset valuation
- Internal management decisions
- Investment counseling
- Land development cost studies
- Lease and rental analyses
- Lost profit analyses
- Marriage dissolution
- Mortgage financing
- Multi-family residential properties
- Municipal redevelopment studies
- Potential sales and purchases
- Railroad right-of-ways
- Special assessment appeals
- Special purpose real estate
- Tax abatement proceedings
- Tax increment financing
- Utility and communication easements

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BUSINESS & REAL ESTATE VALUATIONS

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