BY RAY HANKAMER
rhankamer@gmail.com

CCIM March Luncheon-Cost Segregation Strategies-Understanding the Details of Increase Cash Flow Speaker: Brian Bigham, Madison SPECS

Brian Bigham

Takeaway: By taking advantage of IRS rules allowing for accelerating depreciation on the various *components* of a commercial building which have a shorter economic 'life', developers and investors can increase their cash flow/ROI.

- Companies specializing in cost segregation studies can help developers show potential equity investors how their returns can be maximized, before they invest
- Cost segregation front-ends tax losses by classifying everything in the building: chattels, carpet, light fixtures, etc., and assigning an economic life to them, and then amortizing each of them over that life
- Land is excluded and is not depreciable
- Different categories of assets may be depreciated over 5, 7, 15, 25, or 39 years
- Savings can be reinvested in other real estate ventures, by rolling them forward into new deals
- This cost segregation strategy can be employed by individuals, estates, corporations, partnerships, and LLCs
- There was a special limited term act passed in 2017 called "Bonus Depreciation" that increased benefits to property owners even more than the basic Act allowing cost segregation which was passed in 1987
- The age of the building does not matter-what does is the year in which it is acquired-cost segregation can begin then on it and on capital improvements installed by the new owner-so the formula becomes: Buy, Renovate, Hold for appreciation, and Sell
- Cost segregation can even be applied retroactively on a building some years following its acquisition
- There is schedule of recapture of depreciation due upon sale of the building, but the owning entity comes out way ahead compared to just taking straight-line depreciation on the entire value of the asset
- Due to the specialized experience required in categorizing all the different and minute components of a building and carefully assigning each of them 'depreciable lives', the speaker said 'this is not something just to hand over to your CPA'
- The studies are customarily performed on a fixed fee basis, in the $4,500 range, and not on a percentage or sliding scale

O'Connor Hotel Forecast Luncheon Speaker: Rahul Bijlani – CBRE

Rahul Bijlani

Takeaway: The slowdown in oil & gas around 2014 crimped hotel operating results in the Houston Metro area, in some submarkets more drastically than others. Hurricane Harvey gave an occupancy boost that saved some owners from default. Room night demand has remained flat to slightly up during the last six years or so, but non-stop arrival of new supply of rooms has tempered any real growth in REVPAR (revenue per available room), a metric of hotel performance. Going forward, REVPAR should improve as new development moderates, barring any unforeseen negative events. Some buyers are acquiring Houston hotels now since the price per room is at a favorable place relative to replacement value. Absent unforeseen events we are looking at a stable and slowly strengthening market.

- There is cautious optimism among local hotel owners overall, although with at least ten 'downtowns', the large Houston METRO area has many different individual sub-markets, each with a different set of dynamics (to be summarized later in this article)
- The Covid19 virus could have a negative effect on hotel occupancy, since there are many unknowns regarding it, and hotel occupancy depends on incoming flyers to Houston, from national and international points of origin
- Houston is mostly a business destination, with some sub-markets such as the CBD attracting more leisure travelers than others
- Overall the projected job/population growth should drive future REVPAR up, but pain will be inflicted on older hotels by the new supply coming online
- New supply is driven not always by hard business statistics but often by the sheer availability of abundant equity seeking a return and by the willingness of lenders to loan money at historically very low rates, not to mention eagerness and optimism of owners
- New supply growth is influencing REVPAR now more than demand growth…that ratio should change as new rooms supply begins to moderate
- The hotel industry suffers from overbuilding nationwide as franchisors push new brands
- Opportunity Zone tax laws are encouraging new development
- There can be a many months lag time between the announcement of a new hotel development and the actual opening of its doors for business, during which the supply/demand dynamics may have shifted
- The Houston hotel market generally follows the national market in its cycles, with occasional exceptions
- There have been steady sales of hotels these last years across the Houston market, for a wide variety of reasons: some stress sales, and some sales by successful owners taking their profit
- 2020 should see hotel room demand returning to pre-2014 levels
- Houston in general offers very competitively priced hotel rooms to individual and leisure and convention travelers, making our city a highly competitive destination when compared to other large cities in the U.S.