CLIENT CASE STUDY – HOTEL / HOSPITALITY PROPERTY

HOTEL

Project Overview

Our engineers were engaged by the owners of a commercial real estate investment company to conduct an engineering-based cost segregation study for a recently purchased hotel located in the western US. The study objective was to identity and reclassify property components to shorter recovery periods to accelerate building depreciation and defer income taxes for our client.

Tax Benefits Summary	
Cost Basis:	$3,625,224
Cost Reallocated:	$2,282,164
Reallocation Percent:	63.0%
1st Year Deferred Tax:	$56,525
Total Deferred Tax:	**$320,002**

Property Profile

The property is a 131.82 acre site and has three buildings and an 18-hole, regulation length golf course. The Clubhouse is approximately 3,675 square feet and contains the pro-shop, offices, restaurant and bathrooms. The cart storage building is approximately 6,000 square feet and has a small workshop, a bag storage room and an ice maker room. The maintenance building is approximately 5,000 square feet and has a small break room, office, storage room and a bathroom. Land improvements for this site include asphalt paving, concrete curbing, concrete sidewalks, concrete cart path, underground storm drainage and water supply piping, site lighting, fencing, a flag pole, stone monument signs, and general landscaping including an irrigation system. Site preparation of the golf course fairways, bunkers and tees were allocated to land, as was the seeding and grassing. The greens are engineered with contained drainage. There are two new bathrooms on the golf course nearing completion. The property has a cost basis of $3,625,224 and was acquired and purchased in 2005.

Engineering Process

Our construction engineers conducted a detailed inspection and itemized the improvements located on this purchased property. We reviewed all available construction documentation and along with the inspection information we isolated the various components qualifying for shorter cost recovery period depreciation under the provisions of the Internal Revenue Code and current tax law. Using construction estimating techniques each component is assigned a value which is adjusted for depreciation and reconciled back to the purchase price. Finally, our internal audit team of senior construction engineers and tax specialists reviewed and certified its completeness and accuracy.

Project Results

As a result of this Engineering-based Cost Segregation Study the client was able to reallocate $2,282,164 or 63.0%of the assets to shorter recovery. The client's projected tax benefits on a Net Present Value (NPV) basis were projected to be a total of $320,002 and a first year tax benefit of $56,525.