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Intangible Assets and Hotel Value

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ABSTRACT

Hotels are operating businesses whose financial value is affected by a number of intangible factors. The accurate value of a hotel affects a number of parties from hotel owners, operators, brokers, management companies, and financiers. While researchers have been creating methods for valuing intangible assets within hotels and creating new automated frameworks for hotel valuation it has yet to be seen if these methods are known to be utilized by members of the hospitality industry. This article examines how hotel owners, investment brokers and general managers in California utilize intangible assets to generate revenues and value in hotels. Results show that brokers, owners and general managers have varying definitions of intangible assets yet most acknowledge that intangibles affect their average daily room rate (ADR), return on investment (ROI) and net operating income (NOI), yet few investigate how.

Introduction

Today, hotels offer much more than basic accommodation; they are dynamic operating businesses composed of several profit centers. The purpose of the hotel is to offer services to its guests. These services extend beyond an overnight stay to include meals, events, spa treatments and entertainment to name a few. It is this dynamic operating business within the physical hotel that generates a cash flow and affects the ultimate hotel value to be traded (bought and sold) in the market. Hotels are traded via real estate brokers who represent either the buyer or the seller (owner or prospective owner) by using valuation methods based on cash flow and bottom line profit. When considering the hotel's value these methods do not examine the dynamics of the operating business or the various intangible assets, transactions, and functions that make up the profit centers. Rather, the valuation methods used are strictly focused on cash flows (revenues/profits).

A hotels ability to create value is dependent upon its ability to utilize its assets to their greatest potential. Hotel assets considered extend beyond the tangible, that is to say the land, physical structure, furniture, fixtures and equipment (FF &E) to include intangible assets such as working capital, profit centers (guest services), affiliation or association, the name of individual hotel/ reputation, and a trained and skilled work force (Kinnard et al., 2001). Proper management of these intangible assets generates brand equity for the individual hotel translating into brand value, ultimately affecting the overall hotel's value. If creating equity in the hotel translates into value, then why are these not considered in hotel valuation methods today? Because brand can be the largest intangible asset in a hotel (O'neill, 2004; Standfield, 2005; Tiwari, 2010) and intangible assets create brand equity and brand value, this investigation will focus heavily on intangible assets as they relate to brand equity and brand value.

Possible explanations for the predominant absence of intangible asset value (IAV) in valuation and budgeting could be its definition. Intangible by definition means vague, abstract, or something that is difficult or impossible to define ("New Oxford American Dictionary", 2005) and therefore quantify. "According to intangible management operating standards (intMgtOS) 85% of managers are incorrect in their understanding of the term intangible" despite their understanding of the importance of intangibles (Standfield, 2005). As managers correctly attributed brand, R&D, intellectual property and goodwill[1] to intangible, they were unaware that it included things such as competitive advantage, service, satisfaction, quality, and response time (Standfield 2005). Furthermore the study showed that 75% of those surveyed attributed intangible assets to wealth generation, yet only 5% "had a robust system that measured and tracked all aspects of performance of intangible assets and intellectual capital" (Standfield 2005). The study included executives

[1] "Goodwill is often defined as the value of a business entity not directly attributable to its tangible assets and/or liabilities" (Tiwari, 2010).

from a broad range of business types in the United States, but it is unknown how executives within the hospitality industry specifically deal with intangible assets. Therefore the objective of this paper is to understand how and if executives within the hospitality industry assess value to intangible assets and how intangible assets are used to create value. A more accurate understanding of how hospitality executives define and utilize intangible assets in their management and value assessment may shine light on ways to breakdown knowledge barriers and provide a uniform standard of defining and assessing IAV. Therefore this paper will aim to answer the following question:

How do hospitality industry executives utilize intangible assets in creating and identifying value in a hotel?

Background

There are many methods for hotel valuation yet the most commonly used method for valuing a hotel is the income capitalization approach (also referred to as the income approach) (Jackson 2008; deRoos & Rushmore 1991). The income approach is considered the most appropriate method because it considers the hotel's ability to generate revenue for which hotels are bought and sold. Significant performance or revenue indicators used amongst hotels and in valuation methods are average daily rate (ADR), net operating income (NOI), and revenue per available room (RevPar) (Jackson, 2008; O'Neill, 2004; deRoos & Rushmore 1991). The hotel's revenue stream is generated from its services, such as rooms, food and beverage (F&B), and spa to name a few. Furthermore, a hotel can demand a price premium, or increase prices when satisfaction levels are being met or exceeded, thereby increasing the ADR, and ultimately RevPar and NOI (O'Neill & Mattila, 2004). Therefore, when investigating a hotel's ability to generate revenues (and profits) or to analyze its performance it is important to look into different ways to add value.

A hotels potential to generate value is contingent upon its ability to utilize its assets and resources to their greatest means. When considering hotel assets in this context it is imperative to examine both tangible and intangible assets. It is a culmination of these assets that will affect the performance as intangible assets work indirectly through complex chains of cause and effect to affect financial performance (Kaplan & Norton 2004). Intangible assets "often enhance the value of the tangible assets with which they are associated" and similarly the opposite is true (Reilly & Schwiehs, 1999). It is argued, "if managers could find a way to estimate the value of their intangible assets, they could measure and manage their company's competitive position much more easily and accurately" (Kaplan & Norton, 2004).

IAV is additionally important because "since 1990 appraisers in the United States have been required to consider the influence of intangible assets and tangible assets on value of property" (Kinnard et al., 2001) as the Uniform Standards of professional Appraisal Practice (USPAP) mandated that real estate appraisers estimate the value of non-realty components of properties (Appraisal Standards

Board 1990-2000 editions). This is particularly important "in jurisdictions where ad valorem[2] taxes are based on market value of real estate, hotel owners are concerned with separately estimating the real property component (real estate) and the personal property component (both tangible and intangible personal property)" (deRoos & Rushmore 1991). In a state such as California where property taxes can be quite high but allows exemptions for intangible assets (California State Board of Equalization, 1998) makes it important for hotel owners to know the intangible asset value (IAV) and separate tangible and intangible property.

Intangible assets can make up as much as 70% of a business' total value (Standfield, 2005) and yet, despite the role intangible assets play in affecting a hotels financial performance it is not measured or considered on budget sheets, financial records or commonly used in valuation techniques. This is of particular interest considering that methods have been created for not only ascertaining the IAV in businesses in general but more recently for hotels in particular (O'Neill & Mattila, 2004; Rushmore, 2004; Stanfield, 2005, California State Board of Equalization, 1998; Appraisal Standards Board 1990-2000 editions; Graaskamp; 1991).

Literature Review

Defining Intangible Asset (s)

Intangible assets per definition are accepted as being rather difficult to define in a more precise and concrete way, both in academia and in the more practical world (Tollington, 2002). The *International Standards Committee* defines intangible assets to be "assets that manifest themselves by their economic properties, they do not have physical substance, they grant rights and privileges to their owner; and usually generate income for their owner. Intangible Assets can be categorized as arising from Rights, Relationships, Grouped Intangibles, or Intellectual Property" (Mard et al., 2002).

Standfield (2005) argues that increased revenue is not generated by cost reduction but cost reduction can in some instances reduce profit. Thus, revenue is rather generated by determining the cost of quality and proper management of intangibles. Standfield (2005) goes on to state "it is the quality of competitive (soft) intangibles that ultimately determines the quantity, quality, and continuity of financial performance" (Sandfield, 2005).

There are three levels of resources a firm must manage in order to create and maintain a competitive advantage (an intangible value) and those are: competitive intangibles (soft), legal intangibles (hard) and financial transaction (soft and/or hard) (Standfield, 2005). Standfield (2005) defines competitive (soft) intangibles to be knowledge assets (operational and effectiveness of knowledge) and relationship assets (the operational quality and effectiveness of human interactions). Examples

[2] A tax based on the assessed value of real estate or personal property

of competitive intangibles include: customer service, satisfaction, morale, stress, conflict, knowledgeable staff and emotionally intelligent staff; all characteristics that are an intricate part of the hotels operation as a service provider. Standfield (2005) states that proper management of these competitive intangibles will yield greater productivity, higher competitive advantage, lower costs, and generate higher revenues.

Additional examples of intangibles specifically within hotels include but are not limited to: working capital, an assembled, trained, and skilled work force, the name of the individual hotel and reputation, affiliation or association of hotel, licenses and permits, and profit centers (mostly guest services) (Kinnard et al. 2001). Brand is considered to be the most visible and valuable of intangible assets (O'neill, 2004; Standfield, 2005; Tiwari, 2010) as brand creates value beyond property value, affecting NOI and RevPar (O'Neill & Xiao, 2006). This directly affects the actual value of the hotel property (O'Neill, 2004; O'Neill & Belfrage, 2005) because hotels are bought and sold on their ability to generate a profit (Jackson 2008; deRoos & Rushmore 1991).

Today's hotel market is becoming increasingly competitive and in order to avoid becoming a commodity hotels must learn to differentiate if they intend to survive (Liping & Hobson, 2004). This is particularly true for smaller and independent hotels whose chances of survival are greater if they persistently adhere to integrated brand messages (Liping & Hobson, 2004). Hence, branding is becoming an increasingly important component for both independent and flagged (associated with a chain) hotels to generate value for the property. While all of this is important, a brand is valuable only if it has meaning to customers (Farquhar 1998) additionally national branding of a hotel is not cost prohibitive.

To understand how a brand generates value for a hotel, it is important to define and separate brand value and brand equity. "Brand value is the net present value of future cash flows from a branded product minus the net present value of future cash flows from a similar unbranded product" (Tiwari, 2010). While "brand equity is a set of perceptions, knowledge and behavior on the part of customers that creates demand and/or a price premium for a branded product- in other words, what the brand is worth to a customer" (Tiwari, 2010). One must capitalize on the brand equity or the brands worth to a customer in order to generate brand value because "the brand with higher equity generates significantly greater preferences and purchase intentions" (Kim et al., 2008). This is important because "repeat customers account for approximately 40% of the sales recorded in the global hotel industry" (King & So, 2010).

Managing Brand equity as an Intangible Value

A hotel with strong brand equity can command a series of premiums such as more favorable customer response to price change, brand extension, and licensing opportunities (Keller, 2001) as well as greater customer loyalty and higher

resiliency to endure crisis situations, higher profitability and higher market value (O'Neil & Xiao, 2006). Brand equity can be generated or enhanced by emphasis on customer experiences (intangible asset) as a customer's perception of value and experience is influenced by their "awareness, perceived quality, attitudes, preferences, attachments and loyalty" (Kim et al, 2008). Customer experience and soft/competitive intangibles are intricately linked together making proper management of unparalleled importance to maintain or generate brand equity (King & So, 2010). Kim et al. (2010) has also shown that customer experience focused on creating emotional bonds generates customer commitment and loyalty, thus generating a willingness to pay for price premiums in order to retain higher tier status when affiliated with a rewards or loyalty program.

Brand equity can be managed by using satisfaction indexes (O'Neill & Mattila, 2004; King & Fung, 2010; Prasav & Dev, 2000), service performance (Chan & Xu, 2010; Standfield 2005), productivity (Standfield, 2005), Brand Metrics DNA (Tiwari, 2010) and/or the balance scorecard (Kaplan & Norton, 2004). Satisfaction and similar values (customer and employee satisfaction surveys/ratings) translate into both higher ADR's immediately as well as over the long-term (O'Neill & Mattila, 2004; Prasav & Dev, 2000). A customer's service experience is stronger than brand awareness with concern to brand equity, thus a close look at customer experience can assist in monitoring equity (King & So, 2010). Service performance is a proxy of customers' direct experiences and an important proxy to monitor as it bears significantly on the hotels overall brand equity (Chan & Xu, 2010). Productivity is a proxy for competitive advantage and brand value on a daily basis, so if productivity increases it is due to enhanced intangible effectiveness i.e. acquired competitive advantage, and higher amounts of brand power etc (Standfield, 2005).

Brand Metrics DNA (Tiwari, 2010), is a method used to qualify, measure and manage the various equity elements of brands. Elements are divided into three categories: Brand Associations, Business Assets and Market Fundamentals, each of them include more precise elements. Brand Associations includes: awareness, quality, loyalty, image, relevance, value proposition etc (soft intangibles). Business Assets include: intellectual property, business processes, and distribution reach (hard/soft intangibles). Lastly, Market Fundamentals includes: legal/Regulatory, political/environmental, pricing, brand benchmarking etc (hard/soft intangibles). Many of these elements reflect the categories defined by Standfield (2005) as hard and soft (competitive) intangibles.

The balance scorecard aids in monitoring intangible assets to manage the competitive advantage of the firm more effectively and efficiently. The idea behind the balance scorecard is that intangible assets are more valuable to a company than tangible assets because intangible assets are much harder for a competitor to imitate as opposed to financial or physical assets, thereby providing a "powerful source of sustainable competitive advantage" (Kaplan & Norton, 2004). Thus, the goal of the balance scorecard is to assist managers in measuring and managing their company's competitive position more easily and accurately. The creators of the

balance scorecard believe that "intangible assets seldom affect financial performance directly, instead they work indirectly through complex chains of cause and effect" (Kaplan & Norton, 2004). The balance scorecard identifies and manages intangible assets by dividing them into three main categories that include human capital, information capital, and organization capital. The balance scorecard uses a "strategy map" to link intangible assets to the company's strategy and shows how they influence the company performance (Kaplan & Norton, 2004).

Translating Brand Equity and Intangible Assets into Brand Value

It is the intangible assets described above that determine the quality of the services provided by the hotel to create an experience for the guest. Experiences that thereby positively influence the reputation generate repeat business and create a propensity for guests to spend more money affecting the hotels financial indexes and overall value. Brand value can be determined by taking "the net present value of future cash flows from a branded product minus the net present value of future cash flows from a similar unbranded product" (Tiwari, 2010). As mentioned earlier, several researchers have argued how competitive soft intangibles associated with brand equity influence overall financial performance. However, going back a few steps we can see how brand equity translates into brand value by looking at a few financial indicators such as ADR, RevPar, NOI (O'Neill & Xiao, 2006). ADR is a strong financial indicator, and as mentioned earlier, customer satisfaction (a quality indicator) translates into higher ADR's (O'Neill & Mattila, 2004). Going further, IAV can be calculated on premiums over market occupancy and ADR (O'Neill & Belfrage, 2005). One can see how brand equity translates into value by monitoring RevPar as studies have revealed that a customer's perception of brand equity has a significant influence on RevPar (Kim et al. 2003). Repeat customers attributable to brand equity increase the NOI by returning to the specific hotel as opposed to a competitor, thus spending money on rooms and other services within the hotel as well. Combined, all of these indicators reveal an affect on cash flow paralleling what O'Neill and Mattila (2006) stated that, "Well-established brands are intangible assets that serve as a source of strategic advantage and create financial value due to their ability to generate cash flows via relatively higher margins."

Valuation Methods

There are a variety of methods to calculate hotel value. Some are more common for appraisers assessing values for property taxes and banks, and others more common or preferred by brokers in the real estate market. Valuations are required for a broad range of reasons such as sale, transfer, tax assessment, expropriation, investment and financing (Jackson, 2008). Because this paper focuses on the knowledge of the hospitality industry, a brief look into a variety of methods used by various industry representatives are evaluated. A focus is paid on methods used to separate property and non-property hotel value for the implications it has on IAV and property taxes as mentioned above. Additionally, the most commonly used method (the income approach) by brokers will be included and a method for separating IAV specifically within hotels is discussed as well. Any

further analysis on other valuation models would be distracting from the objective of this paper.

O'Neill (2004) has argued that there is great interest in the hospitality industry for an automated valuation model (AVM) specifically for hotels and has developed an AVM using NOI and ADR as main financial indicators in his model. Other indicators include occupancy rate and room rate multiples. He found NOI on per guest room basis to be the best predictor of hotel sales price per room and ADR to be the next most significant (O'Neill, 2004). Jackson (2008) argues that AVM's should be used in conjunction with another method for validity and comparison.

The income capitalization approach to hotel valuation is arguably the most commonly used method to value a hotel by brokers and the most accurate (Jackson 2008; deRoos & Rushmore 1991). The income approach is a focus on cash flow that compares NOI to equity; it attempts to relate the wealth generating capacity of the hotel to its value. It most accurately reflects the actions of the typical hotel buyer who purchases a property based on their leveraged, discounted cash flow (deRoos & Rushmore, 1991). The income approach is complex and includes four valuation methods: the single capitalization rate (more commonly referred to as the cap rate[3]) method, discounted cash flow analysis, simultaneous valuation formula and band of investment method (Jackson 2008).

The Rushmore method focuses on separating the values for real property (land/ physical structures) and personal property (both tangible i.e. FE &E and intangible) by making deductions from NOI. Appraisers separate the real property and personal property in hotel value for property tax and banks (Rushmore, 2004). In referring to personal property the indicators used are FE&E and makes allowances for business and personal property deductions and income derived from the business and personal property attributable to NOI; the Rushmore method also uses a market based cap rate. The Rushmore method finds that the personal property component accounts for approximately 30% of the property value (Rushmore, 2004). O'Neill and Belfrage (2005) argue that a major flaw in the Rushmore method is that brand affiliation and other sources of income such as food and beverage (F&B) are not considered.

Kinnard et. al (2001) conducted a study to calculate the IAV within the going concern value[4] of a hotel using methods constructed by Graaskamp (Grasskamp, 1991; Kinnard et al, 2001). Using the Graaskamp method the main indicators used were ADR, RevPar, NOI and a market based cap rate. He compared intangibles such as training/ labor to market rates, brand to RevPar, and others such as working

[3] Capitalization rate or cap rate is the potential rate of return on an investment real estate property calculated by NOI/Cost.

[4] The price paid for or value of an operating property that includes business components such as tangible and intangibles assets (Kinnard et al. 2001)

capital, reputation and brand by investment. The study concluded the IAV of the particular property to be 32% of the going concern value (Kinnard et al, 2001).

O'Neill and Belfrage (2005) have proposed a method for identifying the IAV of hotel affiliation. IAV is determined by total excess of total annual RevPar over the competitive market norm that can be associated with the name, reputation or flag affiliation of the hotel. When a hotel is sold the real estate value is not separated from the business operation, therefore a new cap rate is proposed specifically for the properties various assets such as real estate, personal property and intangibles. The cap rate is weighted by percentage to each assets contribution. The new market cap rate is allocated to the real estate and personal property and ultimately finds the value for the intangibles. Thus, once the intangible asset cap rate is made and the IAV is determined, one can calculate if the IAV matches the expected return for the brand affiliation. They argue the feasibility of this method is that the majority of a hotels intangible value is based on its brand name (O'Neill and Belfrage, 2005). Or, quite simply for overall IAV, intangible value is calculated on premiums over market occupancy and average daily rate (O'Neill & Belfrage, 2005)

The hospitality industry has a variety of methods for not only managing and monitoring intangible assets but seeing how they translate into value. Additionally, methods have been created to identify IAV and to separate this value from property value. Researchers in both the hospitality field and beyond have argued affects of intangible assets on quality, productivity and ultimately financial performance. Yet, despite all of this, it is unknown how or if hospitality executives utilize intangible assets in their business.

Methods

In order to conduct my investigation into the knowledge of hospitality executives based on the discussion above, detailed interviews were conducted. The subjects chosen for this investigation were divided into three groups: owners (or their representatives), hotel real estate investment brokers, and hotel general managers. Owners were chosen because hotels are traded and owned by them, it is essentially the owner's interest in hotels that provides us with these operating facilities to examine. The category of hotel real estate investment brokers was chosen because it is through the broker that the owners trade hotels on the market and additionally because the brokers provide the owners (or prospective owners) with an assessed market value of the property and other value related information to effectively represent the hotel buyer/seller. It was deemed appropriate to include hotel general managers, as they are the individuals overseeing the operational management of the hotel as a means to generate a cash flow on behalf of the owner.

A special focus was paid to the state of California for the investigation. The idea to limit the scope of the project to one state within the United States seemed applicable considering that laws and regulations vary state to state. Therefore the

location of the hotels (general managers) was limited to California, the owners were required to own property(s) within California, and the brokers interviewed were licensed real estate agents working in California.

Respondents were chosen by initially utilizing existing contacts to source prospective respondents. From there the study benefited from the "snowball" effect where some respondents shared contact information with others in the industry. None of the respondents were affiliated with the same company, franchise or hotel; this was done to cast a greater perspective on the industry. A greater proportion of the respondents focused on general managers, quite simply because the hospitality industry is filled with a greater proportion of general managers than owners and brokers. Two people were interviewed for the owner category, both of which represented two different large investment firms that owned several hotel properties in California and beyond. Two people were interviewed for the broker category, one of which was based in California, the other based in Arizona but was licensed and conducted business in California and in 12 other states. Five individuals were interviewed for the general manager category.

Respondent Category	**Number of Individuals**	**Length of Interviews**
Owners	2	45 minutes – 1 ½ hour
Brokers	2	45 minutes
General Managers	5	45 minutes – 1 ½ hour

General Managers were chosen from a variety of full service hotels to avoid biases in only flagged (franchised) properties but also to examine knowledge and value creation in non-flagged properties as well. As intangible assets and valuation is fundamental in all hotels, and additionally branding and reputation is attributable to hotels that are not flagged as mentioned in the literature review. Furthermore, all hotels were affiliated with some type of hotel association, management affiliation, or franchise, even in the owner-operated hotels. Full service hotels were chosen because they provide the most dynamics and potential for intangible assets, and there was additionally greater access to full service hotels.

Interviews or questionnaires were written for all three categories of respondents based on the topics discussed above for the purposes of comparison. In most cases the questionnaires were emailed beforehand to each respondent so that they could associate themselves with the topic at hand prior to the interview. In three cases a third party arranged the interview and I was unable to provide the respondent with a questionnaire prior to interview. Despite having a questionnaire interviews were conducting in a semi-structured format where the dialogue flowed and the respondent was encouraged to share their knowledge and perspective, questions were asked to prevent the respondent from deviating from the topic and to ascertain continual answers as needed within the scope of investigation. All of the hotel general managers were interviewed in the hotel that they managed. The owners and brokers were interviewed via telephone or at their office.

All interviews were recorded and transcribed for accuracy so as to eliminate any possibility of misrepresentation of the respondents. While the duration of interviews averaged approximately one hour. Using the transcribed interviews results were recorded compared and analyzed to produce the results and conclusions that follow.

Results

Defining Intangible Assets

In defining intangible assets affiliated with hotels and hotel value, the respondents were not in agreement (refer to table 1). One of the most important elements to general managers and owners appeared to be experience and people. By including people they meant people's ability to work; meaning their skill level, emotional intelligence and their overall ability to work safely and generate great service and experience for the customers. As all of the owners and general managers strongly agreed that brand was an intangible asset, yet the brokers disagreed. One owner affirmatively stated, "Obviously brands are intangible assets." However the brokers did not consider brand to be an intangible asset. One broker argued that a brand is tangible "*because you know what the brand is, you know what the brand is doing, and you know how much business is coming from the brand. It is tangible, it is something that you pay for as an owner, you have to get approved as an owner, you have to get a property improvement plan, and sign an agreement that is 10 years plus and that is something that adds value to the property you can then sell to the next guy. And so that (brand) is tangible, not intangible.*"

Table 1: Defining Intangible Assets

Important intangibles assets mentioned by the general managers and owners that affect their hotel value:			
	Ability to get entitlements	To Differentiate	Management
	Guest Engagement and Loyalty	Employee Loyalty	Productivity
	Emotional Intelligence	Customer Experience	People
	Culture/Internal Branding	Human Resources	Brand
	Management Co. Long-term commitment	Hotel Reputation	
Intangibles listed/defined in Literature review:			
	Working Capital	Service	Management
	Trained/Skilled work force	Name of Hotel	Hotel Reputation
	Hotel Affiliation/Association	Productivity	Quality
	Emotional Intelligence	Human Resources	Response Time
	Licenses and Permits	Brand	
	Profit Centers (guest services)	Customer Service	Satisfaction
	Emotionally Intelligent Staff	Knowledgeable Staff	
Do you know what an intangible asset is?			
Respondent Category			
Owners	Yes		
Brokers	Yes		
General Managers	Yes		

Is Brand an intangible asset?	
Respondent Category	
Owners	Yes
Brokers	No
General Managers	Yes

Intangible Assets and Revenue

With respect to brand as an intangible asset the branded hotel general managers agreed with owners that brands offer (or strive to) create consistency. While the independent or non-flagged hotels referred to the necessity to create their own brand value via "awards, recognition, guest services, and engagement into the community" arguing those things create value that is not related to the physical properties of the hotel making the hotel name (brand) more valuable. The independent hotels went on to argue and took pride in not being a flagged hotel, stating that their hotel name (brand) had a strong reputation that brought in repeat business and their independence made them unique thus driving their competitive advantage against flagged hotels.

The brokers interviewed were again in disagreement with the owners and the general managers when it came to how or if intangible assets could contribute to the hotel's revenue (refer to table 2). One broker did agree that *"if you considered brand[5] as an intangible asset, yes*" then it would in fact have an affect on revenue, but again there is discrepancies in what the executives considered to be intangible. While the other broker stated "*intangible assets do not affect the business operation to effect the operating property. The only thing that would have to do with it is the depreciation schedule to dates and that would again be reflected in depreciation after the NOI."* The broker continued, *"Intangible assets as far as I can consider do not affect the RevPar or the NOI."* However one broker did mention, *"Intangible assets in terms of how unique a hotel is, is typically reflected in the room rate. So it is driven into the income."*

Meanwhile all of the managers were in agreement that proper management of intangibles such as employees and guest satisfaction translated into revenue. One general manager stated an evaluation of intangibles are necessary when considering a hotel's ability to generate a profit as "*financial performance is a current indicator but to understand the real potential, one must understand the health of the organizational culture and guest loyalty".* They went further to say increasing satisfaction rates among guests allowed them to command higher prices reflected in their ADR and repeat customers all which correlated to increased revenues in their daily, monthly and annual balance sheets. Several general managers mentioned reputation and low employee turnover translated into year-end profits; as one stated, *"Strong brand equity can also contribute to higher staff retention and the*

[5] The broker is referring to a brand as a franchise affiliation or second party management agreement

ability to recruit the 'best and brightest' in the industry". One general manager stated that productivity changes attributable to intangible assets are reflected in "*year over year performance in our profit and loss statements*". Another general manager argued that "*intangibles set the tone of what you experience and it is a window into the soul of the hotel"* which he believed to be important in selling the hotel to guests and for functions because *"if the hotel does not sell well they are not going to sign the contract."* A general manager representing a flagged hotel mentioned the use of intangibles to differentiate from others thereby avoiding becoming a commodity and thus enabling him to charge higher prices, a philosophy reiterated by several general mangers of both flagged and independent hotels. He went on to say that to differentiate he focused on *"customers, customer service and bottom lines, numbers and revenue."* One general manager stated, "*Absolutely, (intangible assets) not only increase revenue, but certainly increase profitability as well",* a sentiment echoed by general managers and owners alike.

Such was reiterated by the owners as they believed improved productivity would generate higher return profiles and to improve the productivity one owner suggested that "*there are different ways of fixing a hotel property, one of them is you know management and utilizing the human resources… to basically improve the guest service levels of a property… obviously adding capital and improving the marketing and improving the management team."*

Table 2: Intangible Assets and Revenue

Do intangibles generate revenue/ Can they attribute to revenue?	
Respondent Category	
Owners	Yes
Brokers	No
General Managers	Yes

Intangible Assets and Overall Hotel Value

Again the brokers were of a different opinion than the owners and general managers in seeing a correlation between intangibles assets and hotel value (refer to table 3). One broker stated, *"There are very few properties that really have anything to do with intangible assets."* Furthermore the brokers agreed that value is *"based on the operating income"* and as has been mentioned the brokers do not believe that intangible assets affect the operating income of the hotel.

While the owners agreed that intangible assets could affect the revenue, they are mixed in their opinions about intangibles affecting the overall value of the hotel property. One owner stated *"we are financially driven and so if somebody is not going to pay you something for that intangible asset then its worthless to us... if you have a unique property I can see you making an argument that there is some intangible value, but at the end of the day will somebody pay you for that intangible value and the answer is no, because there is no cash flow derived from that intangible value, so while its nice to have, I don't think it really does much to increase the value of the property*

at the end of the day when you are looking at it from a financial perspective." Another owner went on to mention that what it boils down to in the end is the buy and sell and whatever ends up enhancing your return profile. While he does mention various aspects such as intangibles *"will determine how you can sell it over a period of time and if you have been able to enhance and increase the value and sometimes its beyond your control, there are sometimes macro factors... most money is made on the buy and sell and the operation can contribute a little bit but it is not as big of a factor as the buying and the selling price."*

The general managers believe that their efforts in managing the hotel translate into value when the hotel is to be sold by an owner, and all general managers believe that they need to increase value so that the owner can make a profit on the sell. The general managers believed that giving the owners more to the bottom line and bringing "up the ADR and RevPar index" will assist them (the owners) to sell the property; and as mentioned general managers believe that intangible assets assist them in increasing those revenue indexes. Furthermore several hotel general managers believed that improved satisfaction indexes, inspections, workman's comp[6] and community involvement/perceptions all translated into value upon the sale of the property.

Table 3: Intangibles and Hotel Value

Is there a correlation between intangibles and hotel value?	
Respondent Category	
Owners	Mixed
Brokers	No
General Managers	Yes

Translating Intangible Assets into Value

When asked if an evaluation was made of softer assets or intangible assets in addition to cash flow evaluations the answers were again mixed and none of the respondents had a definitive method for identifying IAV (refer to table 4). Again, the brokers did not make any considerations for things other than cash flow as they do not believe intangibles affect the cash flow indexes (RevPar or NOI), and therefore did not have a method for identifying IAV. However, the broker's mentioned that a small portion of goodwill contains intangible assets and that is an issue dealt with between the buyer, seller and their tax attorney's, so the broker's stated that IAV was left to certified public accountant's (CPA's) and/or tax attorney's; this will be discussed further later on.

In evaluating or monitoring the hotel's intangible assets owners agreed that they were interested in things beyond and in addition to budgets, business plans and weekly/monthly updates. They stressed utilizing an asset manager to oversee

[6] "Workman's Comp" or workman's compensation is a form of insurance that pays wages replacement, medical treatment and permanent disability for those who incur work related injuries.

all operations of the business in an effort to "*not only form a business strategy from driving revenue but also from an expense side in particular and especially on the cap-ex side, and especially in new market initiatives if it's a business hotel.*" The owners mentioned several indexes that they monitored beyond hard financials that included: employee turnover, customer satisfaction surveys as well as comp sets (market comparisons) and social media (trip advisor, REVINATE[7]) and would even stay at the property to examine all aspects. Reasons for looking into these aspects were to increase value by making "*a little matrix about what are the issues and what are the things you want to change and how can you change them… so you not only look at the things that you can control but you also look at the things that you can't control.*" One of the general managers claimed that the owners and asset managers in the company who owned her hotel "*wanted to see REVINATE numbers before purchases as well as workman's comp, environmental claims to assess long-term risk a lot of which is intangible.*"

When asked about evaluating IAV one owner said "*we don't put a lot of value in anything other than cash flow. From our perspective you have to have cash flow to generate a yield and we are return driven, so for us it is about what is the pro forma, not really what is the intangible value of an asset, in a lot of cases you don't know how the next buyer is going to treat that and when we look at an acquisition we look strictly at cash flow.*" Meanwhile another owner admittedly focuses on maximizing return profiles stated that evaluating intangible assets is "*second nature to me… I think experience has a lot to do with value. There is no such thing as an enjoyment meter to hold up in the hotel to catch everybody's vibes, you have to rely on everything, it is subjective, you know it its intangible so you can't measure it, so how do you measure it, you measure it emotionally with your gut reactions, your own experiential assessments...you can make all of those mathematical equations and assessments but again the intangibles and even the things that you think are tangible, there is no guarantee on.*" Despite monitoring the intangible assets associated with the hotel to monitor the hotels performance the owners did not have an exact method for translating IAV into a financial number. However, the owners did acknowledge that tax attorneys and specialists had ways of determining IAV, but were themselves unfamiliar, this will be elaborated upon later in the text.

The general managers used a variety of methods to manage and monitor their intangible assets. All of them used Employment Engagement Surveys (EES) or Colleague Engagement Survey (CES), Employee Satisfaction Surveys, Guest Satisfaction or Guest Experience Index surveys (GEI) and relied heavily on comp sets (market comparisons) to manage intangible assets, arguing that these indexes would translate into revenue thereby increasing the hotel value. In an effort to manage employee productivity managers used EES or CES, JD Power[8] and HEATH[9].

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[7] An index that compiles everything that is being said about a given hotel online (trip advisor, twitter, facebook etc) to provide you with one source detailing customer service ratings/perceptions in real time, daily, weekly, monthly.
[8] JD Power is a program designed to measure overall guest satisfaction

Two general managers additionally measured employee productivity with a ratio that included hours worked based on revenue to per hour worked based on profit.

All of the general managers used a variety of sources to compare their comp sets such as Star Report[10] and REVINATE. Two general managers had a rather robust system for managing their intangible assets; one used the balance scorecard method in addition to the other methods mentioned to manage the intangible assets within her hotel operation. She claimed that the balance scorecard was the best means to manage her staff, numbers and growing the business; stating that the balance scorecard "*keeps me honest, they keep me looking at the guest, they keep me looking at the numbers, looking at our associates".* Another general manager uses "The Coaching Strategy" which he developed himself based on the Malcolm Baldridge criteria "*to drive performance, facilitate accountability of goals, create organizational alignment and improve external and internal communications, it measures efforts which drive results. It is a disciplined, leadership way of life with purpose to increase both the intangible and tangible asset of the business*."

The EES or CES is used because general managers believe that "*if our associates are happy that will resonate back into the deliverable of guest services*" all agreed that "*happy colleagues taking care of happy guests, and in return you can command a higher ADR and you command more for a burger… and again, it goes back to your experience… that has a direct correlation on how you do on your JD Power scores and revenue.*" Furthermore the general managers stressed that high ratings on the EES/ CES correlated to a decline in turnover, unemployment claims, and workman's comp claims, thereby reducing expenses and providing an ability to raise prices all of which correlated to the financial indexes, profits and surveys. They also argued that this translated into value when the owner decided to sell.

General Managers also agreed that GEI or guest satisfaction surveys were a means to monitor quality and productivity of employees and all believed that this generated revenues. Arguing that it is reflected in the prices as the ability to raise prices is due to customer satisfaction. Adding that these scores were reflected in sales, as "*numbers don't lie, if you don't provide quality that is expected you will see it in your sales numbers."* Another stated that "*the more we take care of our guests the higher our rates can go, we can't raise rates unless we are performing at really high guest service scores and rates and EES's and turnover."*

Another general manager used repeat ratios as a means to advocate customer service/satisfaction as this generated loyal and repeat customers, stating *"those are the kinds of things that if you had to translate into dollars, I think we can see that, we can track our repeat ratios. We track our expense and of course we track*

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[9] HEATH is a program that monitors forecasted needed labor to hours worked
[10] Star Report provides an index of financials (ADR, RevPar, occupancy rates etc) for benchmarking hotel performance and comparisons within a given market daily, weekly, monthly and annually.

the incremental buys and you know the buy up, and we have different elements that we introduce to up sell and upgrade." In using these ratios the general manager had impressive additional year-end revenue that his owners were anxious to see increase despite initially being dubious of the process and of loyalty programs.

When it came to a definitive method for valuating intangible assets none of the general managers had one (reflected in table 4), in fact, none were particularly interested. One argued "*value is tied to price, reputation and brand; that expectations minus price equaled value."* One said "*I believe that you can't just look at one metric because sometimes it will give you a false reading if you are just looking at cost per an occupied room, rooms division and you don't realize what your business was… emotional intelligence in the hospitality business, that is a single most defining intangible that separates the men from the boy's*." Another general manager argued that such a tool/metric to define IAV would be impossible since each market is different and said "*I think that would just be another tool... If I had that, I would use that to convince ownership to approve budgets and capital plans… I mean we do ROI's, and liars make figures and figures make liars, I mean, I can make the numbers do whatever I want them to do*." Two General Managers simply did not find a need to identify IAV because they were owner operated, with no intentions of selling and thus no need for a definitive value.

Table 4: Evaluating IAV

Do you evaluate the "softer" intangible assets when evaluating performance of a hotel?	
Respondent Category	
Owners	Yes
Brokers	No
General Managers	Yes
Do you have a method for evaluating IAV?	
Owners	No
Brokers	No
General Managers	No, However each used a variety of indexes to monitor

Managing Brand Equity and Generating Brand Value

The respondents' answers to examining brand performance and determining the extent to which the brand versus the real estate (hotel location) brought in guests and attributed to revenue were overwhelmingly positive from all respondent categories (refer to table 5). The brokers were mixed in their opinions about evaluating the brand; as one confirmed determining how and what the brand was responsible for contributing to in terms of revenue. And therefore argued that by knowing the business attributable to the brand the brand was therefore tangible. While another broker simply said "*again that goes to your NOI and if it is not generating, you're not going to get a good price for the hotel*."

In monitoring the management company's performance and revenue generation one owner said "*it is a little bit financial and a little bit of judgment call to see if you're getting the resources from the management company."* A more

"definitive" method used by one owner was benchmarking. When initially considering a management company he would invite several to bid on the opportunity, having each list the property strengths and weakness and including ways the management company could improve upon them to generate more revenue. This gave him a benchmark to hold the chosen management company and general manager to. In monitoring the management company or general manager in place the owners stressed the importance of a good management contract. Even the general managers themselves agreed, as both sides are bound to obligations and terms of agreement. Owners additionally stressed the importance of the partner, asset manager or third party consultant to "watch over" the management of the hotel.

Yet when determining if the brand was responsible for brining in guests versus the locale, the owners' answers were affirmative but reported various methods for doing so. Both looked at this issue from the perspective "*what I am paying the brand (management company) for, can I do it myself*" and examining sales. Thus the owners examined if the brand drives "*additional rooms that we (owners) are not generating by ourselves and what is the cost associated with that*" the owners are evaluating the "*incremental amount of money*" associated with the brand and using "*the market and star reports to see how they are doing in a competitive market."* The owners only bring in the franchise or management company when/if they are struggling with rates and occupancy. When brining in a franchise or management company they monitor them by "*holding them to a certain level of performance"* that is negotiated in the management contract.

The general managers for the most part did not have a method for determining where the revenue came from (i.e. brand or locale) but stated they know who their guests are, know the members of affiliations or preferred guests, and know repeat customers and their reason for traveling. One general manager claimed that guests/ revenue came primarily because of the hotel's reputation and secondly was attributable to location. Another was adamant the hotel brand and reputation brought in guests. This was not a flagged hotel, rather it maintains an exclusive name and is a part of a collection of privately owned and operated hotels.

Table 5: Brand Management

Are you able to/do you examine the brand (management company)'s performance?	
Respondent Category	
Owners	Yes, not an exact method
Brokers	Yes
General Managers	N/A
Do you evaluate to what extent the brand responsible for brining in guests or revenue?	
Owners	Yes, however no definitive method
Brokers	Mixed
General Managers	Mixed

Valuation Methods

In valuating a hotel for a prospective buy or sell the methods used were overwhelmingly focused on cash flow (See table 6) and none of the respondents used automated valuation methods. Despite using methods that incorporated cap rates, only one respondent saw possible issues with its validity. None of the owners or brokers separated real property from non-real property value or use IAV deductions for property taxes (see table 6).

One broker mentioned that he preferred to use the Rushmore method because appraisers and banks prefer it, particularly with new properties; he additionally views the Rushmore method to be the most accurate method for estimating value. He states that each time he sets an estimate he is always within $100,000 of the selling price; using this method he claims gives him an advantage over other brokers because an official assessment by Rushmore's company HVS will cost between $35,000- $55,000 USD.

Despite the accessibility to hotel real estate investment brokers, the two owners interviewed preferred to utilize their own valuations and broker deals privately when possible. Both owners stressed valuations are based on discounted cash flows thus they preferred the income capitalization approach. One owner went further in his explanation of assessing value of a hotel:

> *"As our end goal is based on internal rate of return (IRR) and equity multiples we always look at the historical, current and future earnings. We will look at purchase pricing based on cap rates and do other looks such as cost per room etc as a secondary check. We look at replacement cost; cost per room and any other insights are added to the mix. We conduct Interviews with managers; discussions with broker friends, competitive property studies, asset assessments etc all get into the decision process. Current Comps of similar, recent hospitality sales give us a range. Usually we try to figure out other ways to release additional value, which might include capital changes (additions, renovations, improved systems…), rebranding, management changes, new marketing program etc. For the most part, we tend to pursue deals without brokers, (privately sourced), and often ones that may be "harry or complicated" as our capital is usually more expensive than some competitors and our advantage comes from solving complex issues."*

All of the owners and brokers utilized cap rates when determining a hotels value. None considered that cap rates had a validity issue based on their market comparison to a wide range of hotels except one person. Generally the consensus was cap rates are like *"comparing apples to apples*" and that "*you do adjustments on the fault cap rate*". One owner referred to the cap rate as "*a way to justify what your allowed to spend"* he went further to state what none of the brokers agreed with that "*many things alter the cap rate and intangibles such as specifics to a piece of investment property like we have been talking about, zoning, permits, brands, unions,*

contracts, that those all have an impact, but even greater than that are some of the external macro economic factors… so there are intangibles that will affect the cap rate."

The brokers do not separate real estate (real property) value of the hotel from the business operation because they claim, "*it is reflected in the income of the hotel*" which is their main objective when ascertaining hotel value. They went on to say, "*personal property allowance and intangible assets are established between the seller and the buyer and their agreements.*" The brokers acknowledged that intangible assets could be found in goodwill, but because that was considered a tax issue they both left that for the CPA's. Yet, when it came to deductions for intangible assets in the hotel's property tax, one broker was not familiar at all, while the other broker acknowledged that it depends on the state and in California particularly. He rarely gets into this issue, only when a buyer wants to compare taxes on prospective properties in two different states and said "*purchase price would affect the taxes using intangible assets when you break down this distribution of purchase price, your going to break it down into layers, and your going to break it down into building and personal property and your going to have different taxes."*

With regards to the owners they did not necessarily separate values for real property and personal property as mentioned their focus is on cash flows and financials. However, they did acknowledge seeking tax deductions but did not consider tax reductions specifically for intangible assets in property taxes as they "*typically engage tax consultants to go through the appeal process and they look at the most attractive structure to get the taxes down*." So while they knew that it is possible to ascertain a value for intangible assets, it was not a priority because they hired a CPA or tax attorney. Their main concern was the option to reduce taxes to the greatest extent via intangible assets or some other method.

Table 6: Hotel Valuation

Methods used for valuation of hotels	
Broker 1	Income, Cost, Room Rate Multiplier Approach
Broker 2	Rushmore method
Owner 1	Income, and other "techniques"
Owner 2	Income
Do you use any automated valuation methods?	
Respondent Category	
Owners	No
Brokers	No
General Managers	No
Does the cap rate pose problems in validity for valuation considering that the cap rate is based on a market that includes other properties that may be dissimilar or drastically different?	
Owners	Yes
Brokers	No
General Managers	N/A

Do you separate the hotel's property value from the non-realty value?	
Owners	No
Brokers	No
General Managers	No
Are you aware/ do you use deductions for IAV when dealing with property taxes?	
Owners	Mixed
Brokers	No
General Managers	N/A

Discussion and Conclusion

Based on the results reported above, the hospitality industry executives have similar views as the intangible management operating standards (intMgtOS) study reported by Standfield (2005). There is no consensus in the industry as to what makes up an intangible asset within hotels. However, generally they did acknowledge that intangible assets included competitive advantage, service, satisfaction, quality and response time where in the previous study respondents overlooked this. Similarly most of the executives interviewed agreed that intangible assets assisted in wealth generation. Yet despite the fact that most saw intangible assets as a means of wealth generation, almost none had a robust system for monitoring all aspects of intangible assets performance and none had a method for identifying the IAV.

Defining Intangible Asset

All respondents reported knowing what an intangible asset is, yet the brokers were the only respondents to advocate that brand was tangible rather than an intangible asset. There was a general consensus among the owners and brokers that brand and people generated powerful intangible assets, as they were the source to generating quality customer service and an overall experience that translated into revenues and profits.

Brand Equity and Value

Despite brokers disagreeing over brand as an intangible asset, they do agree that brand provides equity and brand value to a hotel. The owners and general managers believed that brand equity and value extends to non-flagged/ chain affiliated hotels as well. Because they believed that proper management of intangible assets proved to be a competitive advantage that increased reputation generating more business at higher rates and lower costs, they followed how intangibles generated equity and translated into revenue. The owners and general managers all stressed the importance of managing intangible assets predominantly via customer and employee satisfaction surveys and comp sets, as it is believed this produces brand equity. This translated directly into the ability to increase ADR, Rev Par, and overall sales, decrease costs particularly those associated with employees thus improving the bottom lines, increased revenue, and value. Even one of the brokers admitted that if a property were particularly unique (an intangible asset) then this would be reflected in the ADR, thus showing up in the NOI. Thus,

intangible assets clearly have a place in creating financial value due to their ability to generate cash flow via increased revenues (O'Neill and Mattila, 2006).

It is important to mention that with all of the various combined elements and systems that owners and general managers used to monitor and manage intangible assets, only two general managers had a "strong or robust" system for managing the performance of intangible assets by using the balance scorecard method and alternatively "The Coaching Strategy". Reasons for this could be lack of knowledge regarding methods and/or complexity and needed commitment to execute such strategies correctly.

Owners and general managers both like to manage their intangible assets and benchmark hotels to make sure that they are reaching or exceeding market potential and generating attractive cash flows. However, it stops with management and monitoring, as none of the respondents directly correlate a value to the intangible assets. Despite the owners' interest and appreciation for intangible assets within their hotels they did not acknowledge the value because they could not directly link an intangible asset to cash flow or a financial value. The owners and brokers view cash flow as "king"; cash flow is what everything boils down to, cash flow has a number, it has value and it is this cash flow that the owner's can attractively sell to a buyer. As mentioned it is the transaction of the buy and sell that ultimately creates the grand profit and final goal of the owner, which hinges upon how the prospective buyer perceives the value of the hotel. As the owners said before, regardless of how they value an intangible asset, it is all guesses that another will perceive it to hold the same value rendering it with zero value to them. Therefore, if intangible assets can be assessed with a value and directly linked to cash flow, they may have more credibility with owners and brokers. Even though the general managers viewed IAV as "just another tool", it may actually provide them with a more approachable method for showing owners the value that they are creating in properly managing intangible assets, thus providing intangible assets with increased credibility industry wide. Identifying the IAV may also assist owners in determining what they are paying the franchise or manager to do, thereby providing them with a more clear assessment of franchise and management performance.

Valuating Intangible Assets and Hotel Value

The respondents believe what many others before have shown and that is that intangible assets (including brand equity) are linked to quality, productivity, and financial performance such as cash flow, revenues and value creation (Standfield, 2005; O'Neill & Xiao, 2006; Kim et al., 2003; O'Neill & Mattila, 2006; Kaplan & Norton, 2004). This study also confirms that most executives believe when properly managed, intangibles can enhance the value of tangibles and provide a competitive advantage and/or assist in managing the competitive position. Furthermore, methods now exist for determining IAV in firms and specifically within hotels (O'Neill, 2004), yet none of the respondents interviewed were familiar

with such methods. Nor did the respondents show interest in using such a method, as they all believed that it would only prove to be "just another tool" and without the "experiential" element to evaluate intangible assets their benefits and merit could become lost. Yet this "tool" may assist in showing owners and brokers that intangible assets do have value, thereby providing managers with more legitimacy in how they manage their operations when dealing with their owners.

When it comes to methods for hotel valuation the owners and brokers nearly all preferred to focus on discounted cash flows and use the income approach. Despite the fact that one person uses the Rushmore approach the issue remains the same. Everybody considers the cap rate and NOI to determine a hotel's estimated value. According to previous research and this study both the cap rate and NOI are affected by brand equity and other intangible assets, yet the brokers and the owners do not see relevance in determining IAV. Both categories of respondents leave determining IAV to the CPA's or tax attorneys when necessary. Yet, clearly intangible assets have a place when estimating value of a hotel for a prospective purchase. Recall how one owner described determining hotel value using traditional approaches *AND* conducting interviews, reviewing comp sets, and even conducting assessments of assets; all of which can be deemed an investigation into the intangible assets. Furthermore, if one was to assess the value of assets, why then leave out the intangible assets for which were previously acknowledged in generating revenue for the hotel? Additionally, if it is required by the US government (via USAP) that appraisers consider the influence of intangible assets as well as tangible assets on property value, then it clearly states the relevance of intangible assets. Intangible assets should therefore be translated into the broker's agenda since they are estimating value and representing and/or trading the hotel in the market, thus confirming its value.

The methods preferred by the respondents all focus heavily on the NOI, additionally the automated valuation model and Graaskamp method used ADR and RevPar respectively. Now all of the respondents (even the brokers if they changed their definition of intangible to include brand) agreed that intangibles could affect financial indicators such as ADR, RevPar and NOI, yet intangible assets do not get a financial indicator on the balance and budget sheets. Perhaps intangible assets should not be included because it is known that they *can* affect the financial indicators already present on the budget sheet. Or perhaps intangible assets should be included because we want to see more clearly *how* they are affecting overall income and financial indicators currently on the budget sheet.

One argument for the inclusion of IAV on the budget sheets is because like the other performance indicators included, IAV reflects cost and income of the operation. This is not only important for managerial implications such as brand management, maintaining competitive advantage, productivity, quality and continual improvement on overall performance; but showing IAV on the budget sheet will clearly link the intangible assets to cash flow, providing them (intangible assets) with legitimacy in the industry and the ability to be included in the sale of a

hotel. Additionally a move to include IAV on a budget sheet will aid in industry agreement or at least a unified definition as to what comprises an intangible asset within the hotel. Identifying the intangible asset value (IAV) has implications beyond management and financial performance as IAV can affect appraising and property taxes.

However, perhaps the brokers do not need to identify IAV. If intangible assets affect the NOI and other indicators they use to determine value, then brokers are already indirectly considering their affects on the income and value of the hotel. However, the brokers should agree with other industry executives upon the definition and relevance of intangible assets in hotels. Despite the fact that most general managers did not have a method considered "strong or robust" by researchers, general managers and owners all had methods for managing intangible assets within their hotels and monitoring their affects on revenue. While their systems do not produce an IAV they do facilitate the general managers and owners in managing their competitive strategy and to follow affects on financial performance. It appears that the respondents in this study are able to follow how intangible assets work to produce revenues and fully understand their (intangible assets) potential to generate a cash flow and affect the hotels value. It appears that the main challenge for hospitality executives is to concede to an industry-approved definition of intangible assets.

Limitations and Future Research

This investigation was limited by the variety of industry respondents, as more could have been included for a broader comparison such as tax attorneys, CPA's, Banks (loan and financing representatives). Furthermore this study was limited by the physical scope in which it was conducted, as it was focused in California only. Because general managers move state to state for business and the owners and brokers interviewed owned/operated in several states, it can be assumed that other states would produce similar results, yet for validity an expansion of the physical scope would be required.

It would be interesting to delve further into how (if) the value of an intangible asset changes with ownership and/or management. For is it possible that IAV can be altered when new ownership leverages different capabilities and resources to enhance value, similar to how brand equity is not always transferred to the new owner (Tiwari, 2010) and thus having implications on its relevance in the buy/sell of a hotel. It would additionally be interesting to conduct an investigation of several hotels where the IAV is determined and monitored for five to ten years, conducting annual checks. As such an investigation may show how/if determining the IAV effects the operation, and value creation. Additionally if monitored for such a long period of time, one might be able to see how (if) the IAV can affect the valuation and sale/purchase of a hotel and how (if) the IAV is altered after the sale.

When interviewing the respondents an interesting dichotomy arose between the owners and general managers. As there lies an inherent distrust and often times delicate balance of relationships for a general manager who has to appease several owners within group ownership or both the brand and owner he/she works for. Further research into this dichotomy and balance (or lack there of) may prove not only interesting but may also provide for improved methods and/or relations.

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Appendix

Appendix 1: Interview Guides

Appendix 1a: Broker Questions

1: Are you familiar with the term Intangible assets?

2: Do you have a method for evaluating intangible assets?

3: do you assess a value for intangible assets?

4a: What method do you use to value a hotel?

4b: The income approach does not include an option to analyze the opportunity to capitalize on intangible assets/competitive advantage. Likewise it does not point out if management is poorly utilizing its intangible capital i.e. employees. Nor does it identify if the value/ profits generated by the brand outweigh the costs.
-Therefore, if intangible asset value can have major implications for the income of a prospective property and therefore possible negotiating knowledge for the buyer, could it be included some how?

5: Do you separate the hotel properties value; i.e. that of real estate from the business operation? If so how? If not why is this unnecessary?

6: Why/why not are your buyers/sellers interested in intangible assets or separating the real estate property from the personal and intangible property?

7: When assessing a property for sale or purchase do you evaluate to what extent the brand affiliation is responsible for bringing in guests or revenue, in case it is recommended that the new buyer change management companies?

8: When considering the hotels ability to generate a profit, is a look into how intangible assets affect the business operation necessary to fully evaluate the hotels operating and profit potential?

9: If intangible assets have the power to affect the NOI and thereby increasing or decreasing the value, then will this alter the cap rate?

10: If the intangibles effect or alter the RevPar, ADR and/ or NOI then they essentially alter the income and overall value of the hotel, correct?
10a: Does this affect the cap rate?

11: Does the cap rate pose problems in validity for valuation considering that the cap rate is based on other properties in the market that may be dissimilar even drastically different?

12: Does the purchase price of the hotel affect the property taxes? (Property tax deductions for intangible assets?)

13: If the tangible and intangible assets are separated then will this lower the property tax for the owner?
-Is this something your clients are aware is an option?
-How do they deal with this?

Appendix 1b: Owner Questions

1: Can you start by telling me a little bit about your company and their involvement with hotels?

2: Are you familiar with the term Intangible assets?

3: Do you have a method for evaluating intangible assets?

4: Are you familiar with the benefits for valuing intangible assets?

5: Why or Why not do you not assess the value for intangible assets?

6: What are your requirements in terms of financial/ performance reporting?
-Do you request statements, written analysis, actual vs. budget; how often do you request them?
-What are the most important factors that you monitor?

7: How do you separate the hotel properties value; i.e. that of real estate from the business operation?

8: What methods do you use to calculate or to separate real estate from non-real property

9: When considering the hotels ability to generate a profit is a look into intangible assets (performance drivers) necessary to fully evaluate the hotels operating and profit potential?

10: Do you currently use any methods for managing or determining the value of your hotels intangible assets? Why or Why not? Or separation of real estate and non-real property?

11: How do you use the information regarding intangible assets to make decisions regarding your business or potential purchases of new hotels?

12: Do you consider the hotel flag/franchise to bring your hotel business value?
	-How so?

13: To what extent do you rely/ trust on the brand and/or general manager will operate/manage to your best interest rather than their own self interest to promote brand, or to focus on short-term profits (bonuses). As opposed to a long-term strategy that brings in long term profits.
	-How do you monitor that they are working in your best interest?

14: Generally the operator is expected to provide several services such as marketing, revenue management, operation controls, financial reporting systems, technical assistance and pre-opining services. Do you assess the operator's ability to perform these services on their basis of their experience, the quality and experience of the operator's staff, and the management systems developed to implement each service?
	-Since those factors of reliability are all intangible, how do you measure or assess them?

15: How do you monitor the return on the cost of your operator to make sure that the management company is performing and reaching maximum value?

16: Do you track to what extent your brand/management affiliation brings is responsible for bringing in guests?
	-Is it continuously monitored in case the source responsible for brining in guests changes?

17: Do you evaluate the value of a hotel brand to the hotels profits? How do you determine if the cost of the brand outweighs the value or income it generates? (Do you assess this before the purchase of a hotel? And is it continuously monitored after purchase?)

18: How do you manage/monitor the general manager of the hotel?
	How do you determine if he/she is properly managing the assets (such as employees) to maximize long-term productivity and profitability for the hotel?

19: Are you interested in lowering your property taxes by use of intangible asset value?
	-Do you already?
	-Why or Why not?
	-Do you take this into consideration when purchasing a hotel?
	-Or is it brought to your attention after purchase?

20: Are you familiar with automated valuation software and/or models particular for hotels? Such as O'Neil or Rushmore?

Appendix 1c: General Manager Questions

1: Can you tell me a little bit about the property?

2: This is not a flagged property, is it affiliated with a management company? Or alternatively, is it owner/operator? (Asked when appropriate to property)

3: Are you familiar with the term Intangible assets?

4: Are you familiar with benefits for valuing intangible assets, both to you as a manager and thereby extension to the owner of the hotel?

5: Do you have a method for evaluating intangible assets?

6: Why or Why not do you assess the value for intangible assets?

7: Intangible assets (such as employees, and brand recognition) can affect your business strategy depending on your service, reputation, price-value relationship etc. How do intangible assets affect your management strategy?

8: Intangibles can be the competitive advantage brining in guests however, so can location and property type. Have you assessed which of these factors drive guests to choose your property?

-To what extent is brand more or less important than other factors of your property to generating profit and brining in guests?

-How have you assessed this?

9: What are the implications if you discover the management company reputation/marketing/ equity is not helping you in generating profits or booking guests? (For example if the cost of the association outweighs the profits generated)

-Is this something that you look out for?

-How?

10a: How do you show that your franchise/ or your management company is providing the owner with the best management option?

10b: What do you do to ensure the owner does not try to change management? Do intangible assets come into play? How do you show the value of the intangible assets that you manage within the hotel to the owner to meet his satisfaction with your management (company)?

11: Is your management strategy affected by the fact that you must appease a management company and owner?

12: When considering the hotels ability to generate a profit, is a look into intangibles necessary to fully evaluate the hotels operating and profit potential?

13: How do you separate the hotel property value; i.e. that of real estate from the business operation? Is there a need to?

14: Are you aware of the intangible value associated with employees?
(Their ability to represent and affect the hotel with each of their interactions with guests and other employees, i.e. productiveness, knowledge, skills and emotional abilities)

15: If competitive Intangibles (knowledge assets, relationships assets of employees) are ineffectively managed, your competitive costs will increase possibly undermining revenue. How do you manage this?

16: How do you measure the productivity of your employees?

17: Do you attribute changes in productivity to intangible assets?

18: Do you believe that properly managed intangibles can increase revenue?

19: Can you/ do you measure quality?

20: Do you have a measurement system in place to measure satisfaction or other intangible figures? Are you able to translate these evaluations into dollar figures?

21: Do you have any type of rewards system in place; if so, is it affiliated with other hotels and how does the owner feel about this system? Does he see it as a cost or a benefit?

22: Are you familiar with any automated evaluation methods for intangible assets?

Appendix 2: List of Respondents

Respondent Category	**Name**	**Property Name/Company**	**Management Type**
Broker	Alan Relay	Atlas Hospitality	
Broker (President & Broker)	William Meinhold	Swoboda Hospitality Specialists	
Owner (Senior Vice President)	Mark Jacobs	Oak Tree Capital	Investment Management Company
Owner (Principal)	David Monahan	Colony Capital	Private Real Estate Investment Firm
General Manager	Johnny So	St. Regis Monarch Beach	Franchise
General Manager/ Managing Director/ Executive Vice President	Terri A. Haack	Terranea Resort	Owner Group/Operator (Owners also own management company, destination hotels)
General Manager	Paul Ohm	The Fairmont Newport Beach	Franchise
General Manager	Henry Schielein	Balboa Beach Club	Single Owner/Operator

General Manager (Regional Director of West Coast and GM)	Edward Mady	Beverly Hills Hotel	Owner/Operator of Dorchester Collection