



MAJOR ISSUES IN PERSONAL PROPERTY VALUATION

The Distinction Between Real and Personal Property

Federal income tax rules governing REITs determine the acceptable classification of personal property. Under these rules, real property is defined as land, buildings, and other inherently permanent structures located on land. The term includes items that are structural components of a building. Typically, personal property for hotels is thought of as Furniture, Fixtures and Equipment (FF&E). As the prior definition shows, however, fixtures are considered real property. Consequently, items such as lighting fixtures attached to a wall or ceiling, pipes and plumbing, tiling and wallpaper are all classified as real property.

Alternatively, personal property may be contained in or attached to a building, provided it is not structural component of a building or other inherently permanent structure. If an item is an accessory to the operation of a business (generally including most machinery and equipment) it is not considered a structural component of the building and, therefore, is to be included as personal property. Even with these different definitions, it is often difficult to distinguish between personal property affixed to a building and structural components of the building. The following factors generally are considered in determining whether an item is personal property or an inherently permanent structure:

- Is the property capable of being moved? Moveability is a factor indicating the item is personal property. How substantial a job is removing the item? The more substantial the task of removal, the more likely the item is a structural component.
- Is the property designed or constructed to remain permanently in place? If so, this factor indicates a structural component of a building.
- How much damage will be caused to the property by removing the item? The more damage that will be caused by removal, the more likely that the item is a permanent structure of a building.
- Does the item serve a purely decorative or ornamental function? If so, it is more likely to be treated as personal property.

This short list provides an indication of the process used to determine whether an item is considered personal or real property. The following list identifies items generally considered as the primary hotel personalty (a complete listing of items classified as real and personal property may be found in the addenda to this report):

- Appliances, including dishwashers, washers and dryers, stoves and ovens, refrigerators and freezers, etc.
- Carpeting, including padding.

- Furnishings, including beds, moveable bookcases and cabinets, dressers, sofas, lamps, televisions, etc.
- Health club equipment.
- Ice machines.
- Office equipment and furniture.
- Restaurant kitchen equipment and machinery, including associated gas, plumbing and electrical fixtures that do not relate to the general operation and maintenance of the building.
- Signs.
- Telephones and switchboards

While this list is by no means all inclusive, it does provide an indication as to what is considered the personalty in hotel property.