

Income Approach

The subject has a variety of lodging options catering to hikers traveling the Appalachian Trail. Following is a summary of their posted rates:

Summary of Subject's Posted Rates	
Unit	Nightly Rate
"The Chilax Inn" Bedroom in Single Family Residence	\$45-\$60 Single Occupancy \$55-\$70 Double Occupancy
"The Rest" Bedroom in Mobile Home	\$45 Single Occupancy \$55 Double Occupancy
"Vortex" Single Bunk in Bunkhouse	\$25 / Each
Tent Site	\$12 / Each

We compared the subject to the rates of similar lodging facilities in Southwest Virginia that also cater to hikers traveling the Appalachian Trail. Following is a summary of the rates of similar facilities:

Summary of Comparable Rates	
Unit	Nightly Rate
SongPeddler Rest & Woodchuck Hostel - 533 Docie Street, Damascus, VA	\$50 Single Occupancy Bed \$12 / Tent Site
Sufi Lodge Halal Bed & Breakfast - 67 High Country Lane, Troutdale, VA	\$60 Single Occupancy \$75 Double Occupancy
Lady Di's Bed & Breakfast - 217 Damascus Drive, Damascus, VA	\$60 Single-Occupancy
The Broker Fiddle Hostel - 104 Damascus Drive, Damascus, VA	\$40 Bunk \$85 Double Occupancy
The Merry Inn Hiker Hostel - 208 East Main Street, Marion, VA	\$35 Bunk \$70 Double Occupancy
Long Neck Lair - 7530 Lee Highway, Rural Retreat, VA	\$50 per Room Extra \$5 per person
Bear Garden Hiker Hostel - 306 West Blue Graas Trail, Ceres, VA	\$20 Bunk; \$100 for small house that sleeps up to 6
Appalachian Dreamer Hiker Hostel - 502 Dotson Ridge Road, Ceres, VA	\$25 Bunk
Burkes Garden Hostel - 3713 West End Road, Tazewell, VA	\$35 Bunk, \$20 Tent Site, \$90 Single-Occupancy \$105 Double Occupancy
Mountain Garden Hostel - 1404 Bank Ridge Road, Tazewell, VA	\$30 Bunk, \$15 Tent Site, \$50 Single-Occupancy
Weary Feet Hostel - 13152 East Bluegrass Trail, Bland, VA	\$30 Bunk, \$10 Tent Site
Woods Hole Hostel - 3696 Sugar Run Road, Pearisburg, VA	\$24 Bunk, \$15 Tent Site, \$65-\$85 Private Room, \$30-\$70 Shared Room
Middle Creek Campground - 1164 Middle Creek Road, Buchanan, VA	\$25 Bunk, \$10 Tent Site, \$60 Double Occupancy

As shown in the tables presented above, the subject's rates are in line with the rates of similar facilities. Thus, the subject's nightly rates are reasonable and at market.

Gross Income

According to tax returns and income statements provided by the owner, the subject's Gross Income amounts from the past four years are \$106,565, \$122,403, \$113,040, and \$105,172. Therefore, we reconciled at \$112,000 for the following analysis. This income includes revenue from lodging and shuttle service.

Estimated Vacancy and Collection Loss

The following analysis is based on the subject's actual income history. Therefore, no additional allowance for vacancy and credit loss is necessary.

Operating Expenses

Lodging establishments similar to the subject are typically owner-operated. Fixed expenses of taxes and insurance are typical of most commercial real estate. Variable expenses fall into two main categories: Departmental (room supplies, food and beverage supplies) and Undistributed (administrative, marketing, maintenance, and utilities).

Fixed Expenses:

Taxes - Estimated taxes (including real estate, lodging, sales, etc.) are \$2,927 based on the most recent tax returns or 2.64% of Effective Gross Income. Based on the expense comparables presented below, this is slightly low.

Insurance - The estimated annual insurance cost is \$4,454 based on the most recent tax returns or 4.01% of Effective Gross Income. Based on the expense comparables presented below, this is reasonable.

Variable Expenses:

Departmental - Based on the subject property's most recent tax returns, we estimate the subject's departmental expenses at \$11,000 for supplies or 9.91% of Effective Gross Income. ***Based on the expense comparables presented below, this is reasonable.***

Undistributed - Based on the subject property's most recent tax returns, we estimate the undistributed expenses at \$39,800 for contract labor and wages (listed as Human Resources in the Pro Forma), \$10,000 for administration, \$500 for marketing, \$5,000 for maintenance, and \$13,000 for utilities. This results in a total undistributed cost of \$68,300 or 61.53% of Effective Gross Income. ***Based on the expense comparables presented below, this is double the expense of similar properties.***

Expense Comparables					
	Taxes	Insurance	Departmental	Undistributed	Overall Expense Ratio
Expense Comp 1	11.02%	4.17%	10.83%	27.67%	53.06%
Expense Comp 2	3.86%	3.10%	9.77%	30.87%	47.60%
Expense Comp 3	3.67%	5.12%	9.88%	34.90%	53.57%
Expense Comp 4	3.00%	4.62%	8.62%	32.74%	48.98%
Expense Comp 5	3.60%	2.60%	11.93%	26.37%	44.50%
Subject	2.64%	4.01%	9.91%	61.53%	78.09%

Since the subject's variable expenses are so much higher than those of other hospitality properties, the Income Approach is given approximately half the weight of the Cost Approach.

Pro Forma		
	Total	% of GR
Income		
Rooms Income	\$112,000	100.00%
Gross Income	\$112,000	100.00%
Fixed Expenses	\$7,381	6.59%
Real Estate Taxes	\$369	0.33%
Other Taxes	\$2,558	2.28%
Insurance	\$4,454	3.98%
Variable Expenses	\$79,300	70.80%
Departmental	\$11,000	9.82%
Undistributed	\$68,300	60.98%
Total Operating Expenses	\$86,681	77.39%
Net Operating Income	\$25,319	22.61%