

The Business Enterprise Approach (BEA) Theory Is Unsubstantiated

September 25, 2025



Daniel H. Lesser is the Co-Founder, President, and CEO of LW Hospitality Advisors. He has more than forty years of specialized experience worldwide in hospitality related: real estate appraisals, economic feasibility evaluations,

investment counseling, asset management, receivership, and transactional services of hotels, resorts, conference centers, casinos, mixed-use facilities, spa & wellness properties, and timeshare/fractional ownership properties.

Real estate taxes are one of the primary revenue sources used by municipalities to obtain funds for public expenditures such as parks, highways, interest on bonds, and other government services. Based on the concept that the tax burden should be distributed in proportion to the value of all properties within a taxing jurisdiction, a system of assessments is established by a local assessor. Theoretically, the assessed value placed on each

parcel bears a relationship to its market value. Therefore, properties of equal market values should have similar assessments. Depending upon the taxing policy of a municipality, property taxes can be based on the value of only real property (i.e. real estate tax) and in many cases also on the value of personal property.

While the exact way in which property taxes are levied varies considerably, there are two commonalities among all tax jurisdictions. Property taxes are always an ad valorem tax, meaning the actual tax liability for any given property in any given period is always based on the property's value relative to other properties in the taxing jurisdiction and is always calculated by multiplying the tax rate by the property's assessed value. Another commonality is that all property assessments feature some relationship to "market value" as of a certain date. Different tax jurisdictions may have other nomenclature for market value including: "fair cash value," "fair market value," or "fair value." The underlying definitions, however, are largely identical to the concept of market value as it is defined by agencies that regulate federally insured financial institutions in the United States and are taken from the Uniform Standards of Professional Appraisal Practice (USPAP).

During the past several decades, an unsubstantiated theory referred to as the "Business Enterprise Approach" (BEA), also known as "Total Assets of the Business" (TAB), has been created by a small but vocal group of property tax professionals. With a focus on challenging real estate assessments, the BEA/TAB concept is an attempt to change not the market, but instead the actions of appraisers whose mandate it is to reflect the market. The BEA/TAB hypothesis was originally formulated for application to hotel assets, and subsequently the philosophy and methodology was expanded to include additional forms of commercial property including: regional shopping centers and malls, convenience stores, senior housing, congregate care and retirement

facilities, golf courses and country clubs, restaurants, theme parks, racetracks, recreational vehicle parks, marinas, and billboards.

Essentially, the notion of BEA/TAB is that real estate must be valued as a residual of a business, by first concluding to an opinion of the market value of the Total Assets of the Business (TAB). TAB is a concept that has never been substantiated by “the market” and is not an accepted principle and/or methodology used by knowledgeable hotel investment market participants. The BEA/TAB hypothesis is merely a contrived hypothetical construct without any market foundation, fabricated and developed with the sole intent to obtain reduced hotel property tax burdens.

Analysis of the actions of hotel investors proves that the purchase of a transient lodging facility reflects the acquisition of real and personal property only. Hotel investors account for income attributable to the business through the deduction of management and franchise fee expenses. An investor purchasing a hotel “unencumbered” by a management agreement will not pay for a seller’s assembled work force, business name, patents, copyrights, working capital and cash, operating procedures, and manuals, etc. A passive investment in a first-class hotel “encumbered” by a long-term hotel management agreement is riskier, but no different than a passive investment in a Class A office building occupied by a long-term credit-worthy tenant. Either passive investment yields a risk-adjusted return on property and not on a business.

No one disputes that hotels are unique forms of real estate; they inherently contain significant business and personal property components. Problems occur, however, when one considers transient lodging facilities in the same breath as other real estate properties that contain one or both components. Hotels cannot be considered as just another “business enterprise.” The positing of theories and methodologies relative to valuation issues of lodging

facilities, which are unsupported by market evidence, is fraught with danger.

The only arena in which the BEA/TAB methodology has been used is in real estate tax assessment appeal matters. In cases that have been litigated, it has been soundly and overwhelmingly rejected by the courts, as clearly illustrated in paragraphs 40 and 41 of the following decision: State of Maine South Portland Board of Review Findings Of Facts And Conclusions Of Law On Petitions For Tax Abatement GGP – MAINE MALL, LLC v. CITY OF SOUTH PORTLAND (August 17, 2011).

Hotel owners should beware of any attempt to reduce their property assessments. While no proprietor should pay more than their fair share of taxes, given the clear rejection by courts, an uphill battle exists by those who engage legal counsel, property tax consultants, and/or valuation experts who utilize the novel BEA/TAB methodology to decrease property values for ad valorem tax assessment purposes. Hotel owners should carefully consider the ramifications of, in addition to most likely losing such a challenge, establishing a market value of their property that has the potential of reducing their mortgage asset security value that lenders rely upon when making new loans and/or providing refinancing proceeds.

Conclusion

At any given point in time, there can only be one market value of a hotel property irrespective of the purpose for which such conclusion is being sought. A free market has proven time and again that the sale of an open and operating hotel reflects the transfer of real and personal property only. The manufactured terminology and theory of “Business Enterprise Approach,” also known as “Total Assets of the Business,” is unknown and is a foreign concept to well-informed market participants within the lodging real estate investment arena.