

2021

Case Studies on Repurposing Hotels/Motels into Multifamily Housing

National Association of REALTORS®
Research Group



NATIONAL
ASSOCIATION OF
REALTORS®

CASE STUDIES ON REPURPOSING HOTELS/MOTELS INTO MULTIFAMILY HOUSING

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NAR Research Group

Lawrence Yun, PhD
Chief Economist & Senior Vice President for Research

Gay Cororaton
Senior Economist & Director of Housing and Commercial Research

Brandon Hardin
Research Economist

Meredith Dunn
Research Manager

Anna Schnerre
Research Assistant

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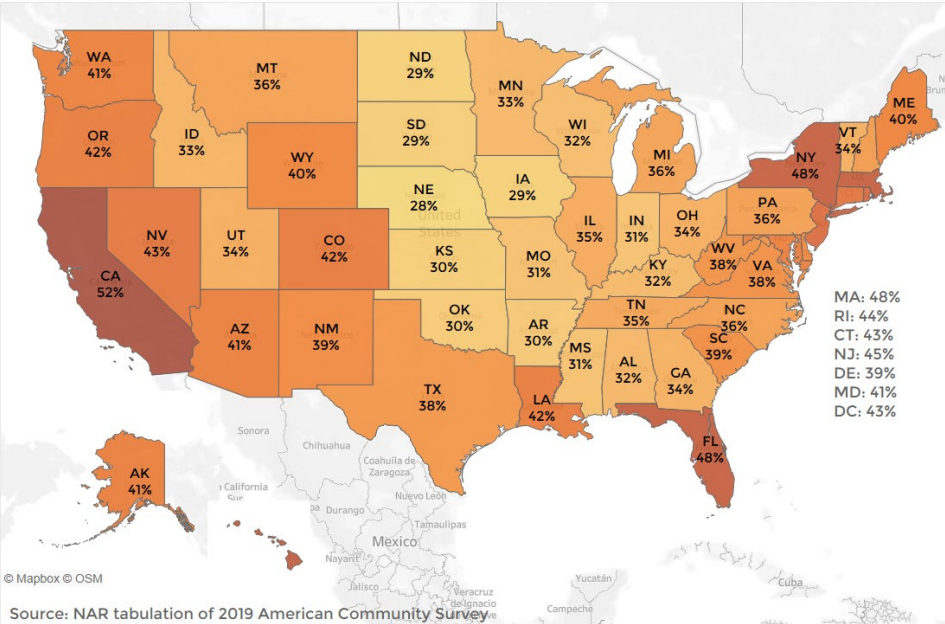
Research Purpose and Methodology

Research Background and Purpose

One obvious adaptive reuse of vacant hotels/motels is for multifamily housing. In 2020, the hotel occupancy rate plunged to 37%¹ as the COVID-19 pandemic severely cut leisure and business travel and events. Even as the demand for lodging recovers once normalcy returns, stiff competition from short-term rental providers will continue to challenge the viability of the lodging industry.

On the other hand, there is an acute undersupply of housing. During 2010 through 2020, housing completions for single-family and multifamily housing were behind by 6.3 million units compared to the level of housing demand arising from household formation and to replace housing lost to demolition or obsolescence.² Due to lack of supply, rental housing has become increasingly unaffordable especially for low-income households. In almost every state, low income households (earning less than 80% of the median household income) typically spent more than 30% of income on rent in 2019. Rental housing has become more expensive. In 2020, 22.7% of multifamily rental units rented for over \$2,000 compared to just 12.3% in 2017.³

Gross Rent as a Percent of Median Household Income Among Low-Income Renters (income is less than 80% of area median income)



1 Smith Travel Research reported by Choice Hotels in 10-K filing
2 NAR estimate based on US Census Bureau net household formation (March supplement), housing completions, and 0.4% of housing lost to demolition or obsolescence.
3 US Census Bureau, HVS Survey

Research Purpose and Methodology

Recognizing that the conversion of vacant hotels/motels is a win-win solution to address the underutilization of hotels/motels and help alleviate the housing shortage, the Commercial Real Estate Research Advisory Board under 2021 Chair Dawn Aspaas and Vice-Chair Beth Cristina recommended that a research be undertaken on the conversion of vacant hotels/motels into multifamily housing to draw some insights and best practices.

NAR Research undertook the research using a two-pronged methodology: 1) conduct a survey of NAR commercial members about their transactions that involved hotels/motels that were planned to be converted into multifamily housing; and 2) conduct secondary research of hotel/motel conversions from company websites, SEC filings, and county records.

Commercial Member Survey Component

The NAR Research Group sent out the survey to 75,000 commercial members during February 17-March 19, 2021. There were 1,936 respondents, of which 168 respondents reported they had been engaged in the sale, leasing, development, property management, or appraisal of a hotel/motel to be converted into multi-family housing (including mixed use) during 2018-2020 whether the transaction closed or not. The survey asked respondents who had been engaged in such a transaction to provide additional information on at most three transactions. Respondents provided information on 29 hotel/motel conversions, and in 21 of these cases, the name of the hotel/motel was identified. Respondents provided information on the following:

- the acquisition cost
- type of service offered (full-service or limited service)
- whether the hotel/motel offered extended stays and had kitchens
- conversion cost
- whether the converted unit offered market rent or below market rent units
- rent per room after conversion
- whether a zoning application was required
- sources of financing, loan to cost ratio, and loan rate

Research Purpose and Methodology

Case Studies Component

The secondary research features five case studies where there is extensive project and financial information. Project information was acquired from official various state and local government websites, official developer and architect websites, and local media outlets. The financial information was gathered from official various state and local government websites, official developer websites and SEC filings.

Residence Inn by Marriott in Winston-Salem, North Carolina
Days Inn in Branson, Missouri
Luna Lodge in Albuquerque, New Mexico
Red Lion in Kissimmee, Florida
Ann River Motel/Go Ministries in Mora, Minnesota

Disclaimer

This project is intended to provide information and insights to industry practitioners and does not constitute advice or recommendation for a business undertaking. While every effort is made to ensure the accuracy and reliability of the case studies information contained in this report, NAR does not guarantee and is not responsible for the accuracy, completeness or reliability of the information sourced from secondary sources that are cited in this report. Use of such information is voluntary, and reliance on it should only be undertaken after an independent review of its accuracy, completeness, efficiency, and timeliness. NAR disclaims any liability for actions taken as a result of this project and its findings.

For questions on the hotel trends analysis and survey results, email Gay Cororaton, scororaton@nar.realtor

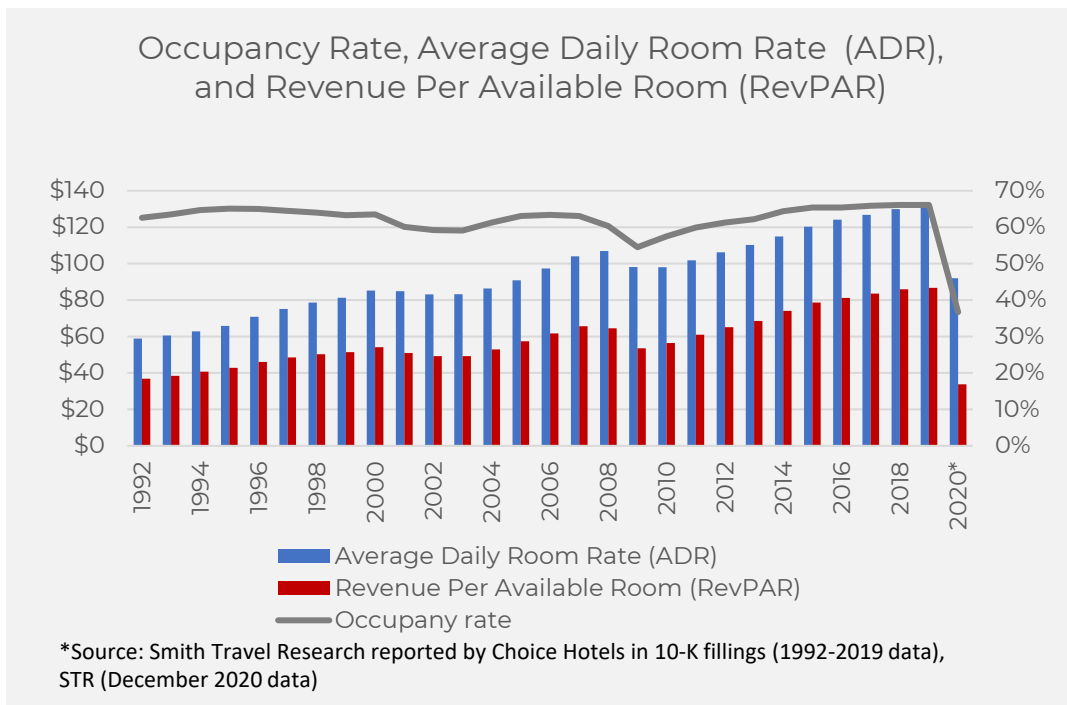
For questions on the case studies, email Brandon Hardin, bhardin@nar.realtor

Hotel Industry Trends

Impact of COVID-19 on the Hotel Industry

Stay-in-place orders, travel restrictions, cancellations or restrictions on sports, business, and group events intended to control the spread of the COVID-19 pandemic caused a severe drop in hotel occupancy and revenue. The American Hotel and Lodging Association reported that in April 2020, eight in ten hotel rooms were empty. With the slight pickup in essential and personal leisure travel, occupancy improved, but on a full-year basis, hotel occupancy averaged just 36.7% by December 2020 (66.1% in 2019), the revenue per available room (RevPAR) fell 60% to \$34 (\$86.8 in 2019), and the average daily room dropped by 28% to \$92 (\$131.2 in 2019).

As of March 2021, 621,000 non-farm payroll jobs have been lost in the accommodation services industry. The unemployment rate in the leisure and hospitality (arts, entertainment, and recreation; accommodation and food services) stood at 13% in March 2021, slightly more than twice the national unemployment rate of 6.2%.



Hotel Industry Trends

Midscale and extended stay hotels and the short-term rental market were less impacted by the decline in group and business travels and as big events (e.g. sports events) were put off or held without the usual big audience. Conversely, the luxury and upscale hotels that are more reliant on business and group travels suffered heavier declines in revenue as business and group travel remained depressed. The Marriott, Hilton, Hyatt, and Intercontinental hotel chains saw global revenues falling by 50% to 60% in 2020. However, Choice Hotels International which operates franchises that are mostly in the midscale, extended stay, and economy segments¹ saw a smaller drop in revenue of 30%.

Short-term rental hosts also saw an initial decline in demand but Airbnb reported an increase in long-term bookings. According to Airbnb's 10K report², demand from guests grew year-over-year for stays less than 50 miles and stays of at least 28 nights starting in the second half as "guests were able to use Airbnb rentals to live closer to family and for remote work and schooling."²



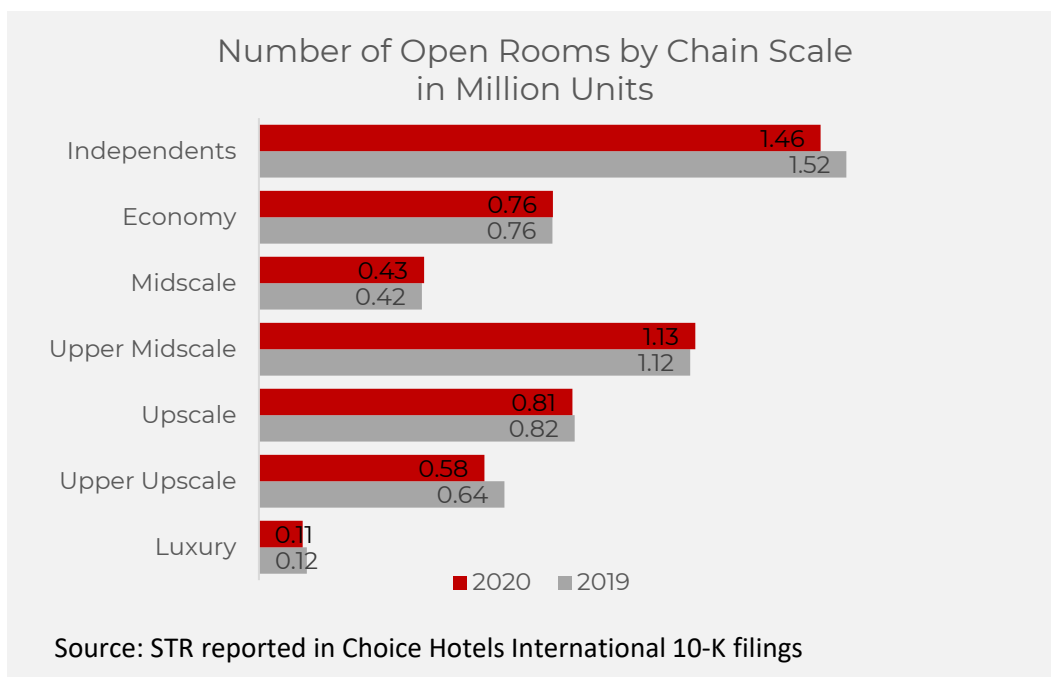
¹ The upper-midscale market are brands like Comfort Inn, Holiday Inn Express, Hampton Inn, and Fairfield Inn. Economy hotels are brands like Econo Lodge, Super 8, Days Inn, Rodeway Inn, America's Best Value Inn, and Motel 6.

² Airbnb 10-K report, <https://investors.airbnb.com/home/default.aspx>

Hotel Industry Trends

With group and business travel still depressed and with international tourist arrivals still just a tenth of what they were prior to the pandemic, the hotel industry shuttered 114,102 rooms in the brand-affiliated luxury (10,475), upper upscale (51,582), upscale (6,142) hotels.³ In contrast, 20,688 rooms opened in 2020 at the upper midscale (13,181), midscale (6,042), and economy (1,465) chain scale, with demand for these chain scales likely driven by leisure travelers and office-using workers who may have used extended stay hotels as their workplaces.

The largest closures (permanent or temporary) are hotels run by independent operators (66,591 rooms). Independent operators have been losing market share even before the pandemic. Independent operators operated 1.45 million rooms in 2020, or 28% of the 5.3 million open hotel rooms. In 2007, when Airbnb was founded, independent contractors operated 1.48 million or 33% of the 4.54 million hotel rooms.



3 Examples of hotel brands by value chain provided by Choice Hotels International at <http://investor.choicehotels.com>

Luxury: Four Seasons, Ritz Carlton, W Hotel, JW Marriott

Upper Upscale: Marriott, Hilton, Hyatt, Sheraton

Upscale: Cambria, Courtyard, Hyatt Place, Hilton Garden Inn

Upper Midscale: Comfort Inn, Holiday Inn Express, Hampton Inn, Fairfield Inn

Midscale: Quality Inn, Sleep Inn, Best Western, Baymont

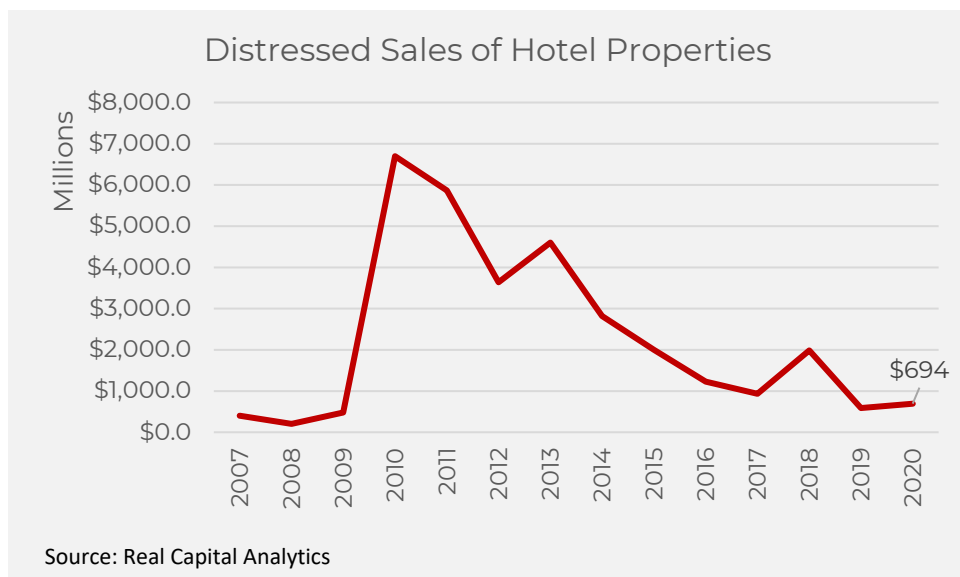
Economy: Econo Lodge, Super 8, Days Inn, Rode Inn, Red Roof Inn, Motel 6

Hotel Industry Trends

On the bright side, even as revenues and occupancy have fallen sharply, there have been little distressed sales compared to the level seen during the Great Recession. Distressed sales totaled just \$684 million, just a tenth of the \$6.7 billion in distressed sales during the Great Recession.

According to the US Census Bureau Small Business Pulse Survey, permanent closures have been relatively modest. Only 1.7% of small businesses in the accommodation industry have permanently closed. Permanent closures have been minimal due to federal assistance, mainly from the Paycheck Protection Plan. As of April 11, the accommodation and food services industry has received \$80.3 billion in loans (\$42.5 billion through August 2020 and \$37.8 billion in 2021).

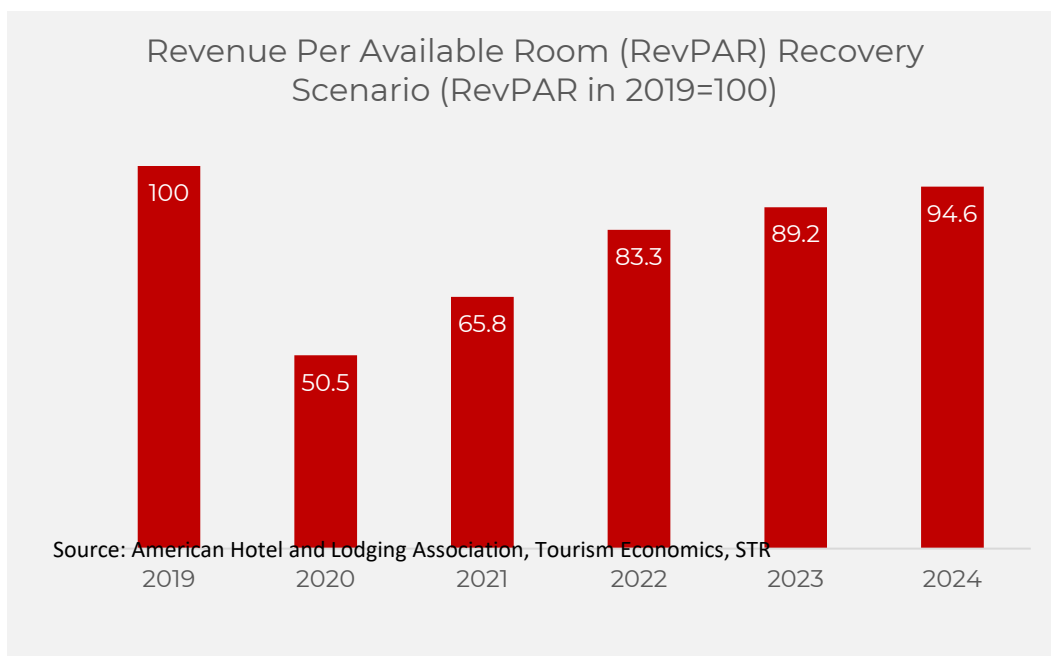
However, the hotel industry has the highest cap rate among the core commercial real estate sectors, at 7.7% based on transactions of at least \$2.5 million in February. Multifamily acquisitions had the lowest cap rate (3.8%), followed by (4.6%), retail (5.3%), and office (5.4%).



Hotel Industry Trends

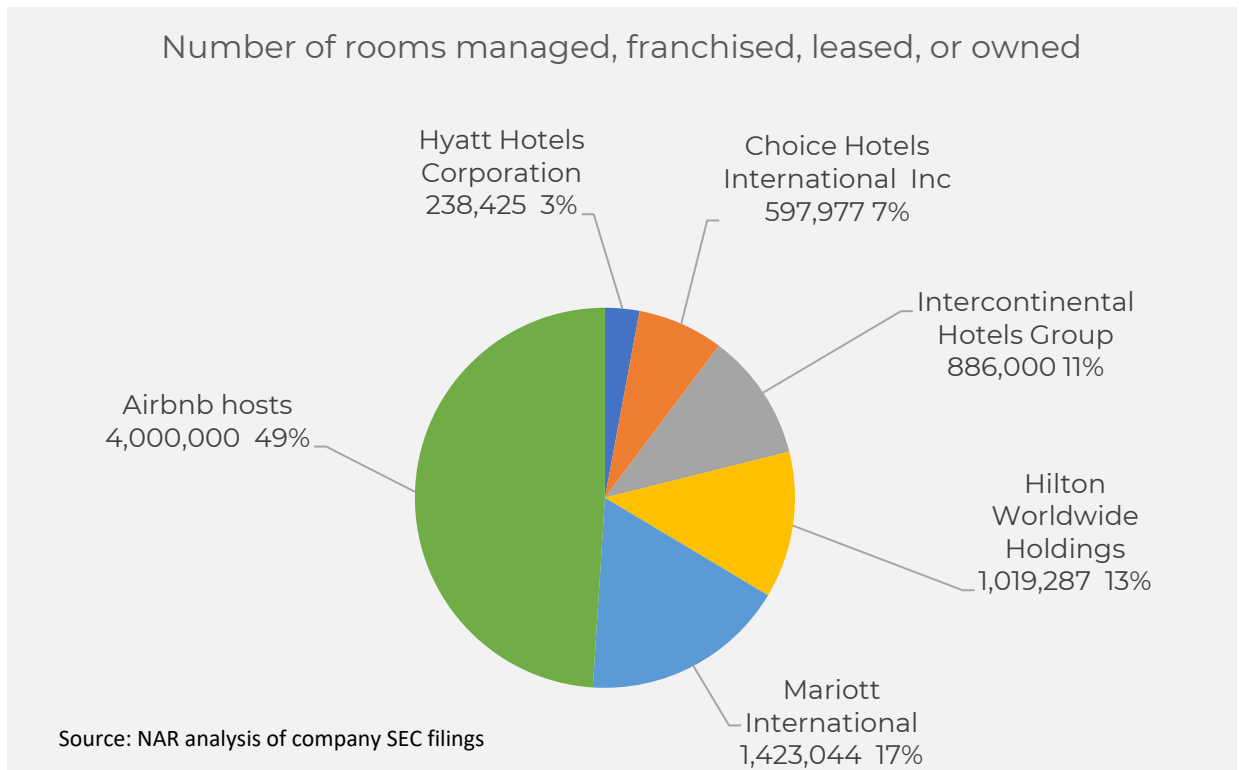
Outlook of the Hotel Industry

With the population targeted to be broadly vaccinated by end of August, travel and leisure, both for personal and business, is expected to ramp up. The American Hotel and Lodging Association expects a full recovery of the sector in terms of revenue per available room by 2024 as revenue per available room rises to its pre-pandemic level.



Yet even as the hotel industry recovers from the short-term decline in demand during the pandemic period, its long-term recovery will depend on how the industry will be able to overcome the competition from hosts that offer short-term rentals and home-sharing through rental websites like Airbnb. As of 2020 and since its inception in 2007, Airbnb now has 4 million hosts globally, which is about the combined number of rooms offered by dominant hotel chains like Marriott International, Hilton Worldwide Holdings, Hyatt Hotels Corporation, the Intercontinental Hotels Group, and Choice Hotels International. In 2020, Airbnb's gross booking value (worldwide) nearly \$23.8 billion, which exceeds the combined gross revenues of these hotel chains.

Hotel Industry Trends



Consumer preferences, especially among millennial travelers, is a key determinant in the evolution of chain hotels, independent hotels, and the short-term rental market. Consumer preferences are evolving toward authentic and localized experiences, giving rise to lifestyle hotels and experiences such as those provided by Selina which seeks to “create thousands of authentic activities and experiences” and “exciting ways to explore the world.”⁴

⁴ Selina, <https://www.selina.com/>

Survey Results



Aerial view of the Residence Inn
Source: National Association of REALTORS® and Move, Inc.

Survey Results: Profile of Hotel/Motel Conversions

Of the 187 hotel or motel conversions that members of the National Association of REALTORS® reported they were engaged in. Sixty percent of conversions were for multifamily housing, workforce housing, housing for veterans, or housing for health care workers.

Another 11% of the reported hotel/motel conversions were for senior housing or assisted living.

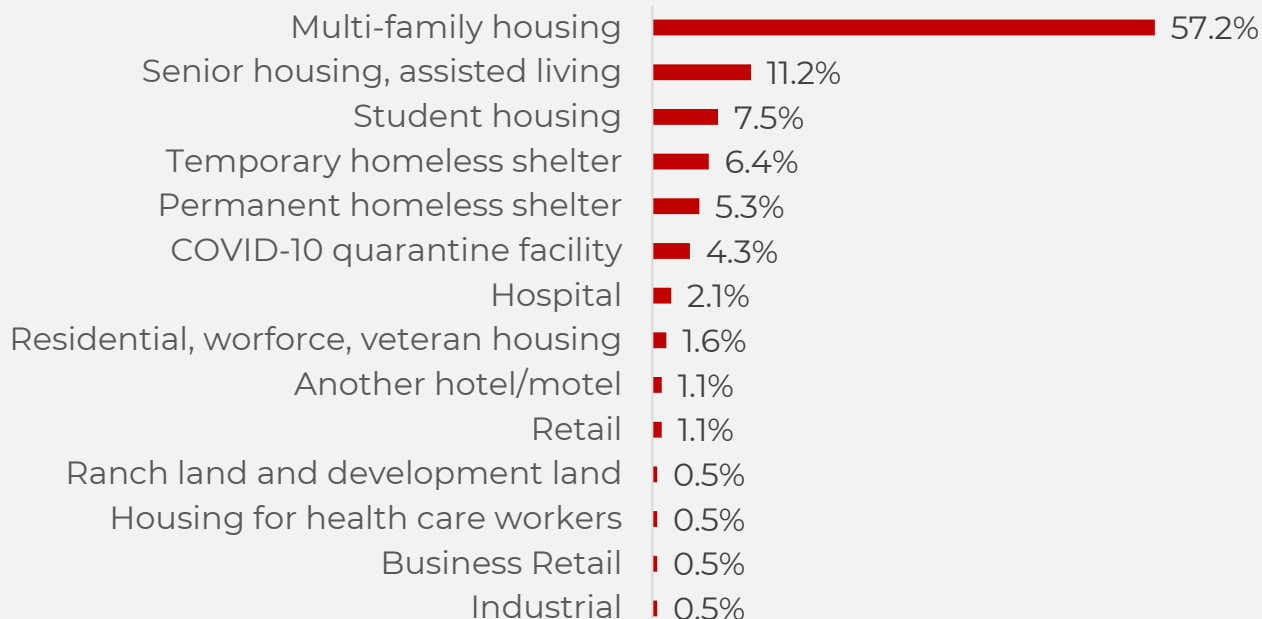
Student housing accounted for about 8% of the conversions.

Homeless shelters, either temporary or permanent, were also major reuses of hotels/motels, accounting for about 12% of reported hotel/motel conversions.

Hotels/motels are also being converted into health facilities such as hospitals or quarantine facilities, accounting for about 6% of hotel/motel conversions.

Other conversions were into retail establishments, industrial, use, or converted into ranch land or for other types of development.

Hotel/Motel Conversions During 2018-2020
Among NAR Commercial Members*



*Based on 187 NAR members who are primarily engaged in commercial real estate.

Survey Results: Profile of Hotel/Motel Conversions

The survey asked respondents to provide information on three transactions they were engaged in during 2018-2020 where the hotel/motel was converted into multifamily housing. Respondents provided information on 29 transactions, and in 21 transactions, the respondent provided the name of the hotel/motel.

Hotel/ Motel Transactions of NAR Members During 2018-2020 that Were Converted into Multifamily Housing						
Hotel/Motel	State	Area	Acquisition cost per sq. ft.	Extended Stay	Rezoning required	Rent charged after conversion into multifamily housing
Stilwell Motel	Arkansas	Small town	\$30	No	No	Mix of below and at market rate
Best Western	California	Suburb of a central city	\$66	No	Yes	100% below market rate
Comfort Suites	California	Suburb of a central city	\$45	Yes	Yes	100% below market rate
Sheraton	California	Suburb of a central city	\$100	No	Yes	Mix of below and at market rate
Atlantique Beach Motel	Florida	Resort	\$378	Yes		
Hyatt	Florida	Suburb of a central city		Yes	Yes	Mix of below and at market rate
Main Street Motel	Florida	Suburb of a central city	\$196	No	Yes	Mix of below and at market rate
Marriott	Florida	Suburb of a central city		Yes	Yes	Mix of below and at market rate
Lakey's Motel	Idaho	Rural area	\$12	No	No	100% market-rate
Midway Plaza	Illinois	Suburb of a central city	\$25	No	Yes	100% below market rate
Portsmouth Sheraton	Maine	Small town		No		
Highland Hotel	Michigan	Suburb of a central city		No	Yes	100% market-rate
Quality Inn	Michigan	Suburb of a central city		No	Yes	100% market-rate
Quality Inn	Michigan	Suburb of a central city		No	Yes	100% market-rate
Midwest Hotel	Minnesota	Suburb of a central city	\$150	No	No	100% below market rate
Super 8	Minnesota	Small town	\$16	No	No	
The Main Hotel	Montana	Small town	\$31	No		
Aztec Motel	New Mexico	Small town	\$75	No	No	100% below market rate
Days Inn	North Carolina	Central city		No	No	
Howard Johnson	Utah	Central city	\$80	No	No	
Red Carpet Inn	Virginia	Suburb of a central city		Yes		

Source: 2021 Survey of NAR Commercial Members on the Conversion of Vacant Hotel/Motels into Multifamily Housing

64% of hotels/motels converted into multifamily housing involved a limited-service hotel. As noted in the section on Profile of the Hotel Industry, independent hotels were heavily impacted by the pandemic and have had a decline in market share even before the pandemic.



Survey Results: Profile of Hotel/Motel Conversions

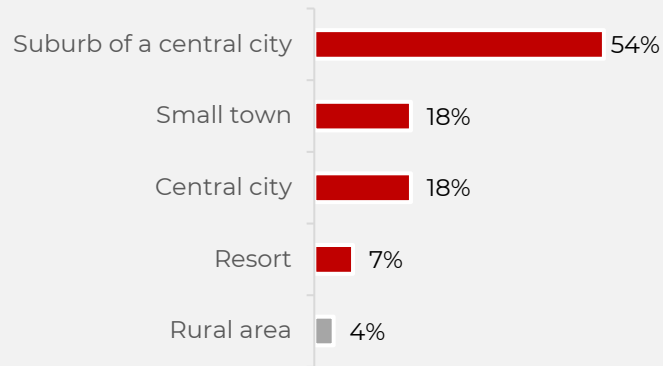
82% of hotels/motels converted into multifamily housing were located in the suburbs, small town, resort, or rural areas. This accords with the finding that most conversions were of limited-service hotels/motels, which tend to be located outside city centers.

54% of hotels/motels were acquired at less than \$50,000 per room. Again, this aligns with the other finds that most conversions involved limited-service hotels/motels that are less expensive than full-service hotels.

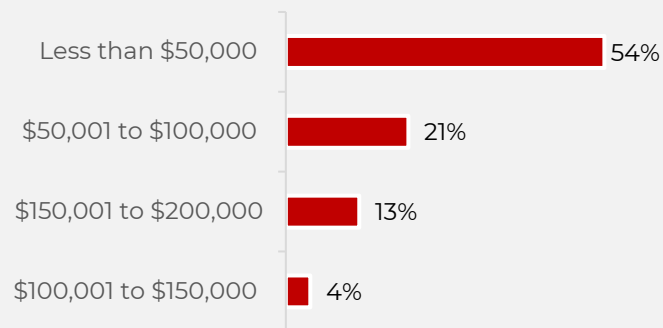
60% of the acquisition cost ratio was debt financed on average, but 80% debt financing is possible. Respondents reported that for below market rate multifamily projects, loans financed only 50% of the acquisition cost.

The average loan rate was 5.1%, with respondents reporting as low as 4% and as high as 6.3%. Debt financing remains relatively inexpensive given the current low interest rate environment due to an expansionary monetary policy .

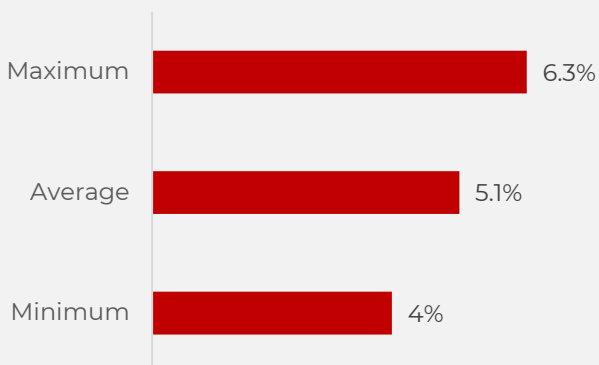
Location of hotel/motel



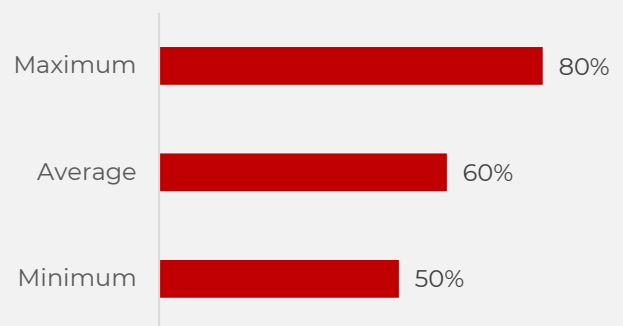
Acquisition cost per room of hotel/motel



Loan rate

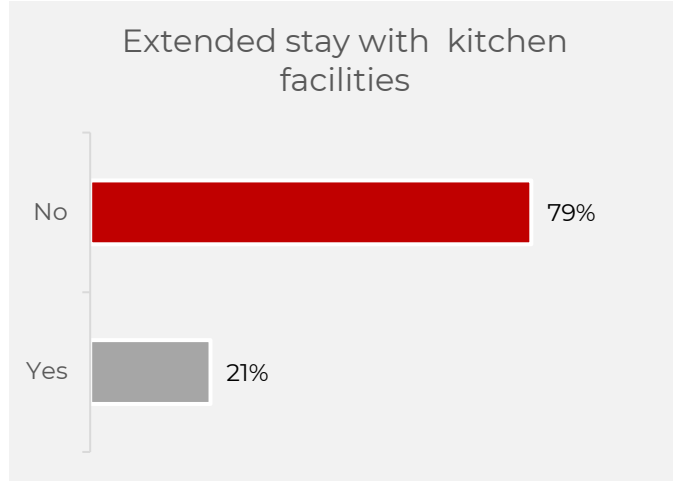


Percent of acquisition cost financed by debt

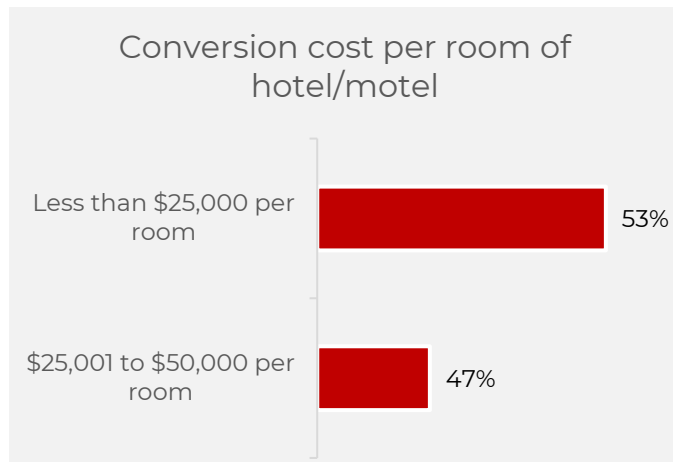


Survey Results: Profile of Hotel/Motel Conversions

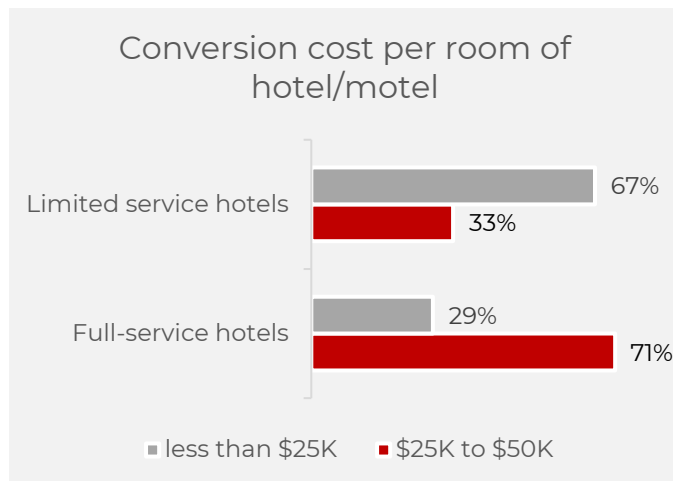
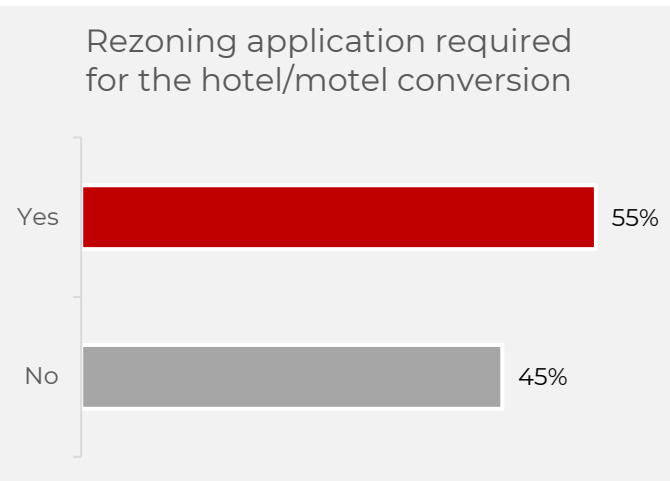
It would seem that extended stay hotels with kitchen facilities are more apt for conversion into multifamily housing. However, extended stay hotels have become increasingly attractive for travelers during the pandemic when working from anywhere became possible. So only 21% of the hotels/motels that were converted to multifamily housing were extended stay hotels with kitchen facilities.



53% of hotel/motel conversions were converted into multifamily housing at a cost of less than \$25,000 per room. Most limited-service hotels were converted into multifamily housing at less than \$25,000 per room, while most full-service hotels were converted into multifamily housing at \$25,000 to \$50,000 per room.



55% of hotel/motel conversions required rezoning. Respondents that the hotel/motel conversions in California, Florida, Illinois, and Michigan required a rezoning application.



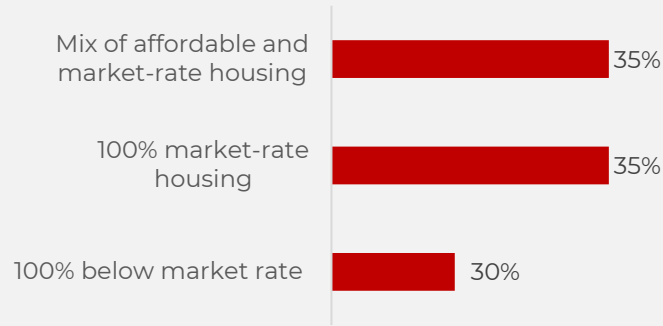
Survey Results: Profile of Hotel/Motel Conversions

In 65% of hotels/motels converted into multifamily housing, the rent was either 100% below market rate or a mix of below-market and market rate.

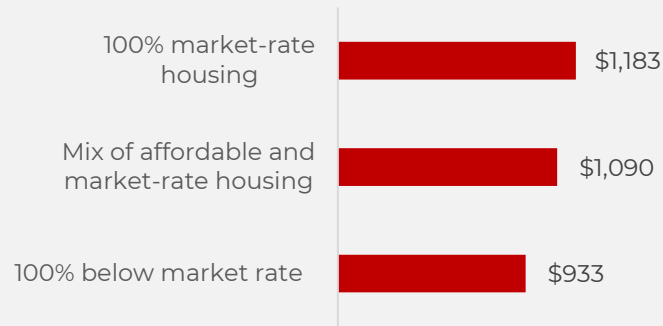
Private investors are the main financiers of hotels/motels being converted into multifamily housing, accounting for 27% of the source of funding of transactions reported by NAR members. Local banks are the next largest source of funding. Government financing accounted for 7%. Affordable housing developers also provide financing.

[Federal financing](#) is available to developers who convert hotels into below market rate units, such as the Low Income Housing Tax Credits (LIHTC) and the Home Investment Partnership Program (HOME).

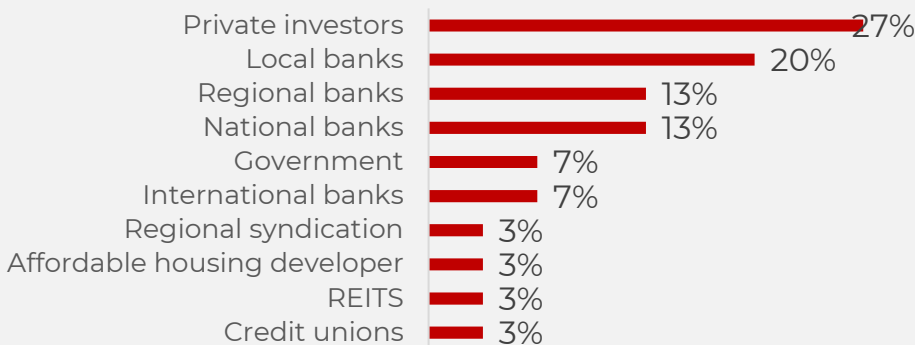
Rent charged after conversion of hotel/motel



Average rent charged after conversion of hotel/motel



Investor or lenders involved in the acquisition of hotels/motels in 2018-2020 that were converted into multifamily housing



Based on 30 responses reported by NAR members who are primary engaged in commercial

Case Studies



Exterior of the newly opened Red Lion Hotel in Kissimmee, Florida
Source: *Kayak.com*

Case Studies Insights

The five case studies presented in this report demonstrate that hotels and motels can be repurposed as multifamily housing and without Low Income Housing Tax Credit (LIHTC). Multifamily housing can be developed from suitable extended-stay, conventional and historic hotel and motel types. The redevelopment can involve a somewhat forthright or complex redevelopment with either an assortment of public-partnership arrangements or purely private redevelopment. Design features, apartment and community amenities, tenant mix and location vary significantly from redevelopment to redevelopment depending upon the developer's economic objectives.

Ensuring a project's economic viability while meeting the owner's strategic goal requires an appropriate mix of financing (public, private) that is aligned to the project's targeted market mix (market and affordable units). Working with the local government and the neighborhood residents throughout each phase of the project to meet zoning regulations and address neighborhood concerns are essential to the success of the conversion from hotel/motel to multifamily. These case studies underscore the role of private and public financing and how investors addressed issues related to zoning regulations.

Financing (all private/equity, Lending, LIHTC, Tax Abatement, other tax incentives)

In some instances, obtaining capital can be a barrier of entry or challenge for some developers. But privately funding via utilizing a significant portion of cash, if possible, isn't a bad thing. Repvblik utilized this approach as they did not want to go the traditional route of obtaining LIHTC or depend on federal funding in order to convert the former Residence Inn property into multifamily housing. One of the primary reasons for doing so was to illustrate that one can absolutely redevelop a property without the assistance of LIHTC or any federal funding. This route can enable redevelopers to not take on debt, incur interest, avoid the lending process, and to increase cash-flow while not having to experience significant project delays while securing financing. JFP Properties conversion of Ann River Motel also provides a good example of how utilizing all cash to fund and renovate a property can lead to a redevelopment not experiencing delays due to funding. Cash financing is never a bad option, but redevelopers should explore all available options.

Another option is equity. T2 Capital's, ICM and others with equity position in the redevelopment of the Red Lion in Kissimmee, Florida utilized this approach to fund their redevelopment. Although portions of the overall project, a large undertaking, has yet to be completed, the housing portion has seen tenants move-in. Utilizing the T2 Opportunity Fund V, T2 Capital raises up to \$100 million in capital where the fund seeks to provide a net annual return of 15%-18% to include an 8% annualized preferred return to investors.

Case Studies Insights

The securities offered are fund interests in a pooled or collective investment vehicle, T2 Opportunity Fund V. By utilizing this approach, those outside investors who made the minimum investment accepted for the fund, \$250,000 would have an equity position in the project. So, dependent upon the number of investors, equity positions (ownership) of the redevelopment would be shared. This approach allowed for the project to move without many hiccups, at least as it pertains to the funding aspect of the redevelopment.

A developer can also go directly to commercial lenders. Vivo Apartments obtained a senior debt investment in the conversion of the Residence Inn. This option helped Vivo Apartments to acquire, convert, lease and operate the redeveloped property. While this was a benefit for Vivo Apartments, for one of the prior owners before Vivo's acquisition, this option led to the property being foreclosed as the then owners did not meet the terms of their agreement.

While commercial lenders support provide support across the apartment spectrum, federal programs including LIHTC provide the credits to state governments who in-turn, provide developers with credits to undertake more affordable housing via construction and rehabilitation. The majority of affordable housing in the U.S. takes advantage of LIHTC and other federal tax incentive programs such as the Historic Tax Credit (HTC). The Luna Lodge rehabilitation is one such property to utilize these programs. This approach suits NewLife Homes' plan for the Luna Lodge redevelopment as they not only wanted no permanent debt but they were redeveloping the property as an historic affordable housing complex. The historic property was rehabilitated into an affordable housing project and one that would serve special needs and homeless workforce families in line with the developer's— New Life Homes — company mission. From a monetary perspective, obtaining credits can provide the development with a means to have no permanent debt as the subsidies ensure financial viability of the property over the long-run but there are requirements such as certifying tenant income to ensure eligibility. Developers do have to consider that the federal subsidy is not released until the property is in use and an eligible tenant (household) occupies the space and that competition among other developers to receive the tax credits is a slower process.

Another incentive is tax abatement, which can significantly reduce or eliminate the amount of property tax paid on the redevelopment and rehabilitation of properties. The idea behind this program is to attract buyers of properties such as a vacant building or to locations with weaker demand e.g. a neighborhood that needs revitalization. JCF Properties Mora Flats is an instance of a developer obtaining tax abatement. The tax abatement in this particular case was to be paid each eligible year depending on if the developer meets certain conditions and provide an annual report.

Case Studies Insights

Zoning

Zoning can pose a significant challenge when converting from a hotel/motel to multifamily housing. Zoning can also be an obstacle for financing as well, if in pursuit of LIHTC, because zoning regulations determine where affordable housing can be constructed. Converting from one use to other also entails meeting the requirement for the new, intended use. This can be quite a daunting, expensive and significant task to overcome. One approach is to acquire extended-stay hotel/motel as they have kitchens or kitchenettes and can be more “easily” converted where some layouts are similar to traditional multifamily arrangements. Simply put, they can have good “bones”. While these structures can have “good bones”, that does not imply that no changes are not necessary. Take the Residence Inn and Days Inn for example. While both developers worked with city and county officials, Vivo, the Residence Inn case study, cleaned, replaced light bulbs, HVAC filters and more in order to be compliant, while Repvblik, Days Inn case study, had to change fire alarms, sprinklers, plumbing and more in order to get up to code as both redevelopments successfully and relatively smoothly transitioned from one use to another.

Obtaining a permit for transitioning from transitory to more permanent housing can include specific conditions as well such as requiring the conversion of x number of hotel units to no more than x number of apartment units while adhering to specific zoning variance. For the Red Lion project, the developer had to go back and provide the county with the recreation calculations for the number of units being converted according to the Osceola County Land Development Code (LDC). While the zoning review was completed one month after the initial denial, this was still additional time spent to provide the necessary details for approval on the redevelopment.

If one needs to go beyond the zoning variance, this entails going back to the county officials for another approval which can add additional time to the redevelopment. It is extremely beneficial to work with the city and county on zoning to ensure the redevelopment fits within their plan for the city/area. The Ann River Motel case study is an example of working with city, county and the community can lead to a quicker zoning change, especially where the proposed use was consistent with the intent of that particular zoning district. While redevelopments of this nature are often subject to zoning obstacles, on a more positive note, they can feature environmental aspects such as energy efficiency, LEED Platinum certification.

Case Studies Insights

The Luna Lodge is an excellent case for this as the developer did encounter obstacles related to zoning that delayed the project for 16 months. They even won an award for overcoming this zoning obstacle that went all the way to the New Mexico Court of Appeals where a neighbor appealed the re-zoning of the Luna Lodge. To illustrate how important, it is to work with city, county and other departments, as it pertains to the Luna Lodge case, they had support from the community to the city and as such the city re-zoned the complete corridor which left the lawsuit from the neighbor deprived of any practical significance. With the city and county on their side, the Luna Lodge redevelopment would go on to be successful.



The famous Lund Lodge signage.
Source: Flickr: sfgamchick

Case Study 1. Residence Inn by Marriott Winston-Salem, North Carolina

Hotel/Motel: Residence Inn by Marriott

Location: Winston-Salem, North Carolina

Year Converted Into Apartment: 2020

Number of Rooms/Units: 88

Number of Buildings: 12

Starting Rent: \$975 monthly

Financing: private financing: \$5.9 million in private development funds (self-funded, debt financing from Fairway America, Ruttenberg Gordon Investments and, other members and/or co-lenders)

The 2-floor clubhouse, extended-stay Residence Inn was constructed on February 15, 1986. Located on 3.58 acres in Winston-Salem, North Carolina, the 12-building, 88-room, extended stay inn with business center, pool and concrete tennis court facilities is nestled near Wake Forest University, adjacent to business complexes and four miles away from downtown Winston-Salem.

In 2020, it was converted into multifamily housing known as Vivo Apartments Winston-Salem after the deed of the property had been transferred numerous times due to financial difficulties (see Appendix).

California-based, Vivo Apartments Winston-Salem LLC acquired the Residence Inn with its 74,088 total gross leasable space and 3.58 deeded acres. Forsyth County records indicates a property value of \$4,613,500.



Aerial view of the Residence Inn

Source: National Association of REALTORS® and Move, Inc.

Case Study 1. Residence Inn by Marriott Winston-Salem, North Carolina

In 2003, Noble Winston Salem I, LLC, a privately held, hotel ownership, management and development company, announced a \$3 million renovation on the Residence Inn property. The renovation would include new kitchens, furniture and appliances. They indicated that renovations would also include the gatehouse lobby, a new board room and a new fitness room where the project would be completed in phases over the course of five months.

Residence Inn amenities at the time included an outdoor pool, complimentary breakfast, hot tub, tennis court and business center. Suites were equipped with work stations, speaker phones, high speed wireless Internet and an iron and ironing board. Each room offered separate living and sleeping spaces and a fully equipped kitchen. In addition, all rooms had a natural, wood-burning fireplace. Added benefits also include complimentary use of the nearby Gold's Gym and a complimentary breakfast located in the gatehouse common area for all hotel patrons.



Exterior of Residence Inn building #1
Source: National Association of REALTORS® and Move, Inc

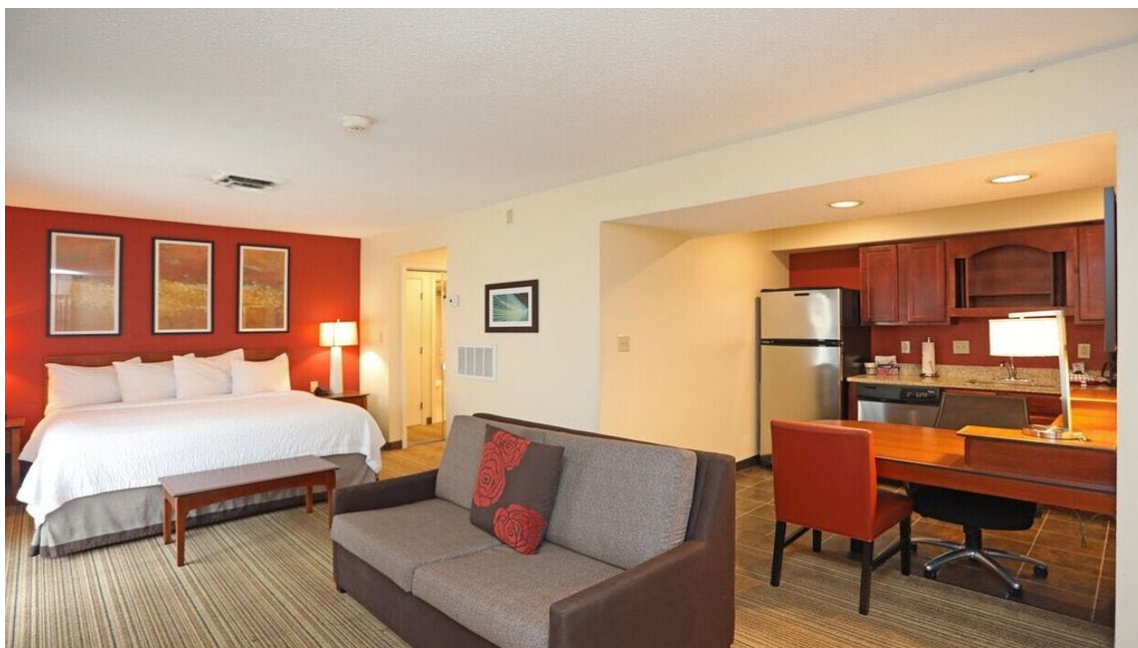
Case Study 1. Residence Inn by Marriott Winston-Salem, North Carolina

In 2013, the property underwent a \$2 million full property improvement plan (PIP) renovation and averaged a trailing twelve months (TTM) occupancy rate of 78.5%, TTM average daily room rate of \$112.99 and a TTM RevPAR of \$88.66.



Exterior of the clubhouse

Source: National Association of REALTORS® and Move, Inc.

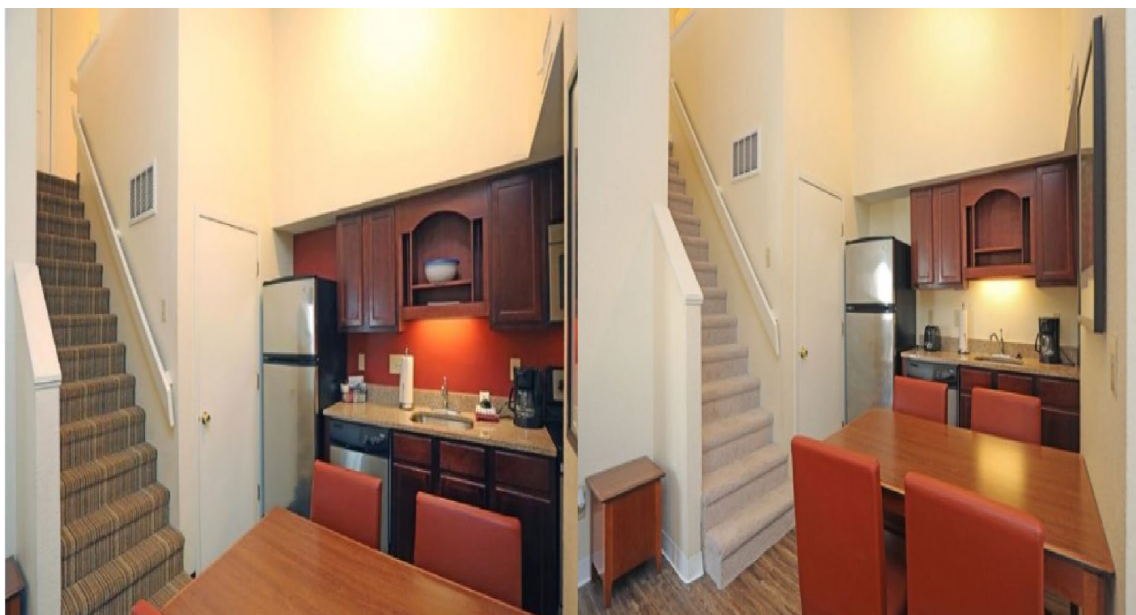


Fully-renovated 1 bedroom, 1 bath-studio, Residence Inn Winston-Salem suite.

Source: National Association of REALTORS® and Move, Inc.

Case Study 1. Residence Inn by Marriott Winston-Salem, North Carolina

What are now the Vivo Apartments in Winston Salem, NC feature resort-style living with studio and two bedroom units starting at \$975 a month. The number of units remains the same at 88 units occupying 2 story buildings. Apartment square footage begins at 500 sq. ft.. Unit amenities include stainless steel appliances, fully equipped kitchens, granite countertops hardwood floors, disability access and are offered furnished or unfurnished. Complex amenities include an outdoor lounge, indoor lounge, community-wide Wi-Fi, corporate suites, outdoor BBQ grills, 24 hour fitness center, business center, swimming pool, dog park, basketball court, onsite laundry facilities, tennis court and fire pit and more.



Vivo Living's renovated 2 bedroom, 2 bath-penthouse compared to pre-renovation at Vivo Apartments

Source: National Association of REALTORS® and Move, Inc.

Case Study 1. Residence Inn by Marriott Winston-Salem, North Carolina

Acquisition, Project Development and Sources of Financing

Vivo Living (“Vivo”), the owner of Vivo Apartments Winston-Salem, formerly the Residence Inn by Marriott Winston-Salem, operates under the Vivo Investment Group which is a full-service private real estate investment and management firm that primarily specializes in converting low-demand hotels into apartments. Founded in 2020, Vivo seeks to provide a solution to increases in housing prices and increases in housing demand by utilizing an oversupply of hotels with insufficient demand and hotels in distress to convert into low- to mid-price range apartments while retaining some unique hotel amenities and offering furnished or unfurnished apartments with all utilities, cable, phone and internet included in its rent prices.

Vivo has an in-house construction team that allows them to complete construction at a lower cost and quickly as they are able to control the cost of their redevelopment. The in-house construction team also evaluates the property and determines designs as they can avoid hiring architects and/or consultants. Vivo partners with a general contractor, Innovating Technology Development Group, that leads redevelopment efforts, property management by Meridian Realty Services and zoning attorney, Ervin Cohen & Jessup LLP.

Vivo targets “A” or “B” locations and “B” or “C” properties and once Vivo acquires a property, typically they convert the zoning to residential and in this case, prior to their acquisition, according to county and city records, the Residence Inn’s land class in Forsyth County was specified as 2.03-hotels-lodging located in a GB (general business) zoning district with a “Hotel or Motel” permitted use record. On September 22, 2020, AEI Consultants, a consulting firm that provides services such as zoning and energy consulting, environmental, property and facility assessments, applied for and was approved for permitted GB zoning with the issuance of an occupancy permit and a Certificate of Occupancy.

Vivo immediately began the project to change use from existing R-1 (residential unit(s) where occupants primarily stay less than 30 days) to R-2 (occupants are primarily permanent in nature) apartments. The project consists of 11 apartment units and 1 clubhouse. The scope was isolated to minimum maintenance including light bulb replacement, HVAC filter replacement, cleaning, etc..

Case Study 1. Residence Inn by Marriott Winston-Salem, North Carolina

Plans were submitted for commercial Alteration/Upfit and residential multi-family alteration/repair on October 9, 2020 for what would be permits for both commercial and residential. Vivo sourced Lewisville, NC-based Trevlac Builders to undertake the remodel. Vivo went on to complete their landscaping review (12/02/2020), zoning reviews (12/02/2020), building reviews (12/08/2020) and with all plans delivered & forms completed, Vivo was issued their permits for a commercial Vivo clubhouse commercial Alteration/Upfit and residential multifamily building permits on 12/30/2020.

Vivo's investment partners include Ruttenberg Gordon Investments (RGI) and Fairway America (FA). Fairway America provided the senior debt investment that was combined with other junior debt and common equity investments for the acquisition of the property, conversion of the Winston-Salem Residence Inn into Vivo Apartments, and to lease, operate and potential sell of the property.

The senior debt and mortgage on the Vivo Apartment totaled \$3,000,000. The borrower, Vivo Apartments Winston Salem LLC is also the "manager" and is co-managed by FA and Vivo Investments LLC.. The investment is expressed as fractional ownership where each "Co-Lender" has interest assessed to the dollar amount invested in the senior debt where a \$100,000 minimum investment was provided per Co-Lender. The loan was a non-recourse loan with carve out provisions to Vivo that are exceptions to the non-recourse status of the loan. The loan term was 18 months and the note's rate was a 9% fixed rate with a 1% servicing spread in FA's favor and the remainder 8% went to Co-Lenders.

The capitalization of the project was \$3,000,000 for the first mortgage senior debt investment, a mezzanine/subordinate loan totaling \$1,400,000 for which was to be funded by one or more pooled funds that FA managed and/or other FA investors procured by FA. The mezzanine loan has a loan term of 18 months and a interest rate of 12% with 9 months minimum interest. On September 17, 2020 Vivo Apartments Winston Salem LLC filed form D, stock/securities offering with the SEC with the intentions of a total equity investment of \$1,500,000 (\$150,000 self-provided and \$1,350,000 from members). The total capitalization of the project was roughly \$5,900,000 with an expected property value of approximately \$7,000,000.

Case Study 2. Days Inn

Branson, Missouri

Hotel/Motel: Days Inn

Location: Branson, Missouri

Year Converted Into Apartment: 2020

Number of Rooms/Units: 341

Number of Buildings: 6

Starting Rent: \$495 monthly

Financing: private financing: \$11 million cash self/privately-funded and DoT Instruments

The 423-room, six-building, Days Inn was located on 3524 Keeter St. in Branson, Missouri. The first four buildings were built in 1986 and the remaining two buildings were built in 1992 and 1993. The Days Inn covers two lots, one 1.57 acres and the other 8.79 acres. Hotel amenities include parking for trucks and RV's, a Mexican restaurant, Elinitas Mexican Café, playground, complimentary continental breakfast, swimming pool and multiple hot tubs.

In April 2018, Lemonade Hospitality LLC (LH) transferred the community commercially-zoned, Days Inn property to Repvblik (registered as Repvblik-Branson LLC in Missouri). Repvblik, a firm that specializes in creating affordable housing via the adaptive re-use of residential and commercial real estate without any government assistance, indicated that the new property would be an affordable housing project with studio and one bedrooms renamed "Plato's Cave". The new property would primarily house a significant number of migrant workers ranging from temporary workers from Puerto Rico, H-2B visa and J-1 visa programs in an amenity-rich community to be built in multiple phases beginning with Phase I (223 rooms and targeted May 2018 completion) and a fully-redeveloped project by 2Q 2019.



Vacant Days Inn Branson entrance, June 2017.
Source: Image Capture: Jun 2017, ©2021 Google

Case Study 2. Days Inn Branson, Missouri

Before the first phase of the project was complete, migrant workers secured a large portion of rooms as corporate employers and sponsors worked with the developer. Some leases were for a minimum 6-month stay that began at \$80 per occupant a week. Leases also went to \$85 per person, per week for a 4 occupant room and to \$97 per person, per week for a 2 occupant unit. These agreements did have attractive amenities such as a gym, commercial kitchen, smart TVs in unit and more.

While under control of LH, the Days Inn property sat vacant for nearly a decade. Repvblik worked with the Taney County Partnership, Branson Chamber of Commerce and partnered with Branson, Missouri-based Treat Architects P.C. to redevelop the vacant Days Inn.

Project construction began in April 2018 and was led by developing partner Chris Leary. Within three weeks of beginning construction, building #5 was ready for occupancy pending final inspections. The majority of the electrical wiring, plumbing and other utility services were already connected but a little demolition was still necessary to convert some rooms. Repvblik added kitchens, fire alarms, sprinklers, new utility lines, gym, clubhouse and before June, some Phase I tenants were in place. Majority of the construction work was done by Repvblik's internal construction team and local construction crews.



Plato's Cave redeveloped studio unit.

Source: National Association of REALTORS® and Move, Inc

Case Study 2. Days Inn Branson, Missouri

The renovated and converted Days Inn buildings had to transition from R-1 (transient housing) to R-2 (multi-family) use, for which the community commercial district (CC) zoned property already permitted.

At the beginning of 2019, considering the success with migrant worker housing, Repvblik began renovations on two other buildings to convert them into studio and one bedroom apartments as they catered to local Branson-area residents and by the close of 2019, Repvblik opened its first adaptive reuse apartment, Plato's Cave.

While a large share of rooms were opened during Phase I for migrant workers, Plato's Cave offers efficiency units and one bedroom units where rents for 285 sq. ft. studio apartments start at \$495 and \$695 for 570 sq. ft. one bedrooms plus an additional \$50 monthly utilities fee (electric and Wi-Fi). Both unit types also include kitchenettes with two stove-top burners, refrigerators and a microwave. Units come unfurnished or furnished for an additional \$50 a month.

As of May 2020, with neither federal funding nor LIHTCs, Repvblik's gated-community, Plato's Cave project initiated its final renovation and construction phase as they began working on the remaining units and by 2021 the project was nearly 50% leased in the portions that have been completed.



The entrance of the new Plato's Cave redevelopment of the former Days Inn site.

Source: National Association of REALTORS® and Move, Inc

Case Study 2. Days Inn Branson, Missouri

For the remaining portions that have yet to be completed, according to the City of Branson, General Construction Permits have been issued so that work can commence on the those building proportions.

Once completed, the majority of the units are/will be studios (260) and the remaining share one bedrooms. Okemos, Michigan-based PK Housing & Management currently manages the redeveloped property.

Costs and Sources of Financing

According to county records, Plato's Cave sits on two parcels where the valuation of residential improvements total \$5,288,746 and valuation of commercial land totals \$477,304. The county assessed value for both parcels at \$1,157,600 as of April 21, 2021. The total development cost for the Plato's Cave redevelopment as of January 2021 was \$11 million including property acquisition. While Repvblik made significant improvements, sourcing the funding was difficult initially.

Sourcing capital was a big obstacle for Repvblik as they could not find lenders for construction loans without having proof of concept. Taking on this project without federal funding and no investors at the time, left Repvblik with no other choice but to self-fund, although Repvblik did obtain investment eventually.

According to Missouri-based, Great American Title Company lender reports, deed of trust instruments (essentially a mortgage, bestowing a security interest in specific real estate to the lender/beneficiary and in Missouri, this legal instrument is used in lieu of a mortgage) for Repvblik-Branson LLC were recorded. Lender activity was recorded on 4/10/18 in the amount of \$2,142,000 from Patterson Real Estate Services and on 1/3/2020 in the amount of \$5,000,000 from Millennium Trust.

Nevertheless, investment into the vacant Days Inn property was worthwhile as it aided in solving affordable housing issues and brought use to an inactive motel while using a LIHTC-free approach.

“It's the community recycling at it's best, as they say. So for us taking a property that was already built for similar use and making conversion out of that makes perfect sense.”

– Jeff Seifried, CEO of Branson Chamber of Commerce

Case Study 3. Luna Lodge

Albuquerque, New Mexico

Hotel/Motel: Luna Lodge

Location: Albuquerque, New Mexico

Year Converted Into Affordable Housing: 2012

Number of Rooms/Units: 28

Number of Buildings: 3

Starting Rent: \$507 monthly

Financing: Public/private partnership and financing: \$4.8 million in public development funds (\$3.3 million from out-of-state buyers of tax credits (RBC Capital Markets), City of Albuquerque Workforce Housing Construction Loan Grant: \$1.24 million, Historic tax credit equity: \$344,120, Federal Home Loan Bank of Dallas Affordable Housing Program: \$210,000, Environmental Protection Agency/New Mexico Environment Department: \$100,000 and other grants)

Vintage Route 66 motel, Luna Lodge, located at 9119 Central NE in Albuquerque, New Mexico, opened in 1949. The property was built and owned by John and Dorothy Jelso from 1949-1955. The Luna Lodge is one of the first motels on U.S. Highway 66, "Route 66" and is the quintessential Route 66 motel. The Pueblo Revival styled, Luna Lodge, was originally comprised of 5 single-story buildings made of stucco-covered concrete blocks in a single wing with garages between each room, 8 total rooms and an office at the end of the wing near Central Avenue. In 1950, 4 rooms were added as a north wing and 4 rooms were added as an east wing, giving the lodge a total of 16 rooms. The motel



View of the Luna Lodge from the roof at the far southwest corner.

Source: *Wikimedia Commons*

Case Study 3. Luna Lodge

Albuquerque, New Mexico

made additional improvements as the garages were converted into rentable space, a second-story manager unit was added above the west wing office with a balcony, the east wing was expanded and a coffee shop, was added at the end of the east wing, for a new room total of 26 rentable units in 1952.

But as time progressed, the lodge added additional units and in 1954, the Luna Lodge put in a heated swimming pool, playground, air-conditioned units, TVs, central heat and bath house behind the north wing. After 1964, the west wings second-story balcony was enclosed to expand the unit. The Luna Lodge experienced significant economic hardship throughout the 1960s and the 1970s after Central Avenue was circumnavigated by I-40 in 1962. With larger national chains migrating to the area, smaller motels had an increasingly difficult time competing and as a result, many smaller locally-owned motels shuttered.

In 1980, the property was acquired by Suresh A. "Sam" Patel who managed to keep the Luna Lodge in business despite declines in Central Avenue (former U.S. Route 66) tourism. Sam Patel leased the Luna Lodge to another party from 1992 to 1997. As a result of the new operator not maintaining the Luna Lodge to Patel's standards, the lease was canceled. The Luna Lodge was placed on the New Mexico State Register of Cultural Properties in April 1998 and the National Register of Historic Places in June 1998.



The vacant Luna Lodge in 2010
Source: Wikipedia: John Phelan

Case Study 3. Luna Lodge

Albuquerque, New Mexico

The Luna Lodge was documented for the Historic American Engineering Record by the University of New Mexico, Historic Preservation and Regionalism students with documentation, drawings and pictures being archived at the Library of Congress in 2006.

In 2008, bundled within the Luna Lodge's monthly rent were two meals per day at the motel's coffee shop and the majority of the rooms were furnished with queen sized beds. The property sat on a little over 1 acre of land that included a lot behind the motel that was zoned for mobile homes. Business had been declining as the Luna Lodge fell into disrepair and worse, upon inspection, the City of Albuquerque officials deemed the Luna Lodge's building unsafe to occupy and substandard as they discovered fecal matter, syringes and raw sewage. Current residents were allotted two weeks to secure new housing. Soon thereafter, the Luna Lodge would be boarded up, sat dilapidated and attracted criminal activity as it sat vacant for many years.

Project Development and Sources of Financing

In 2010 NewLife Homes, Inc. (NLH) would acquire/rehab the Luna Lodge. NLH, a non-profit developer that utilizes old motels to create housing for those most in need (low income, special needs, homeless workforce families) that are close to public transit, employment and medical services that are energy efficient and LEED Platinum. NLH would begin planning for project "Ubuntu", the rehabilitation of the former historic Luna Lodge noting that the property required lead and asbestos remediation whilst having to maintain the lodge's historic profile as it was a historic site with a project target of remaining debt free. This rehabilitation of the Luna Lodge fit into the city's plan to revitalize its portion of the historic Route 66.

NLH sought out the services of Garrett Smith, Ltd., architect and Suina Design + Architecture as they had experience with Low Income Housing Tax Credit (LIHTC), and single family and multi-family housing projects. The City of Albuquerque Environmental Planning Commission approved zoning changes and site development plans for the Luna Lodge. According to the plans, the Luna Lodge would include 30 "affordable" apartments in aggregate. There would be 14 units, a community room with a kitchen in the previously existing motel, an office, laundry room and 16 units new construction built on the north side of the motel in Pueblo-style architecture that would preserve the historic nature of the lodge. Of the 30 rooms, 20 are studios, 10 are 1 bedrooms and 10 of the 30 rooms are held for person with mental and/or physical disabilities. Rooms range from 577-809 sq. ft. with rents for studios starting at \$507 and 1 bedrooms starting at \$535.

Case Study 3. Luna Lodge

Albuquerque, New Mexico

Based in the Albuquerque, New Mexico-area, C & C Demolition Services, was the demolition contractor for the renovation, Atlas Electrical Construction Inc. provided pre-construction and construction services, and Gerald Martin, Ltd. was the general contractor. With demolition of particular portions of the motel already underway and construction beginning on the new portion of the motel, a groundbreaking ceremony was held on March 23, 2012 for the Luna Lodge project. As part of the rehab, the state environment department contributed in remedying asbestos and lead paint from the Luna Lodge property.

NLH and Mayor Richard Berry held a ribbon-cutting ceremony on March 18, 2012 for the \$4.8 million, low-income housing project, Luna Lodge. By November 2012, the project was more than 30% pre-let and on December 4, 2012 the Luna Lodge was completed. The Luna Lodge received the highest rating of energy efficiency certification from the U.S. Green Building Council (GBC)-LEED Platinum.

The Luna Lodge project included used heating and cooling strategies, solar orientation, shading devices, operable windows, heat reflecting colors and used more insulation to minimize heating and cooling energy demands. The project also utilized ENERGY STAR rated appliances in addition to tankless gas water heaters that promoted reduced energy demands.

The Luna Lodge affordable-housing project held a grand opening on March 18, 2013.

As a result of the Luna Lodge development, NLH was recognized by Affordable Housing Tax Credit Coalition with a Tax Credit Excellence Award in the Special Needs Housing category. In addition, in late 2013, the project took first place in the Historic Development that Overcame Significant Obstacles category at the Novogradac Journal of Tax Credits Historic Rehabilitation Awards Luncheon. The “significant obstacles” NLH overcame includes neighbor appealed litigation with respect to re-zoning that went to the New Mexico Court of Appeals that caused a 16 month project delay (NLH worked with the City of Albuquerque legal and planning to re-zone the whole geographical area), a change in ownership of the contractor mid-way through the project endangered the budget set for the project and targeted construction completion date, and fulfilling the requirements to obtain LEED Platinum for a rehab of a historic structure.

Case Study 3. Luna Lodge Albuquerque, New Mexico

In order to not take on permanent debt, the \$4.8 million Luna Lodge conversion to low-income multifamily housing was made possible largely via low-income house tax credits (LIHTC), historic tax credit equity from RBC Capital Markets and collective effort among many city departments and state agencies. Financing was also provided by New Mexico's Mortgage Finance Authority (MFA) (the states official housing agency), the City of Albuquerque, Federal Home Loan Bank of Dallas and New Mexico Environment Department.

The total development cost of \$4.8 was procured via \$3.3 million from out-of-state buyers of tax credits (RBC Capital Markets), \$1.2 million from the City of Albuquerque's general obligations bonds (Workforce Housing Trust Fund Program (WFHTF)) which provided the construction loan for the project. The remainder funded by smaller grants. The project has equity from historic tax credits, sustainable tax credits, and federal low income housing tax credits such as funding from Federal Historic Preservation Tax Incentives Program along with numerous grants.



*Renovated Luna Lodge as of April 2019
Source: Image Capture: Apr 2019, ©2021 Google*

Case Study 3. Luna Lodge

Albuquerque, New Mexico

Further, financing from the Federal Home Loan Bank of Dallas provided a \$210,000 Affordable Housing Program (AHP) grant to assist with the construction of the Luna Lodge. The New Mexico Environment Department received an award of an American Resource Recovery Act (ARRA) Brownfields Revolving Loan Fund (BRLF) grant from the EPA and awarded \$100,000 to the New Life Homes to pay for approved expenditures to eliminate asbestos and lead paint at the Luna Lodge site. A 9% LIHTC was provided in the amount of \$344,120 in addition to NLH lowering developments costs by negotiating exemptions such as Impact fees, Utility Expansion Charge fees, Gross Receipt Taxes, RE taxes, Albuquerque Public Schools tax , revenue credits and receiving pro-bono work.

The Aftereffect

The historic motor lodge, Luna Lodge, was one of the first complete rehabilitations of a historic motel along the Route 66 corridor. The Luna Lodge renovation and conversion was a catalyst for redevelopment in a blighted area that had been neglected for quite some time. NLHs renovation has had a positive impact on the area as other renovations of derelict motels and hotels have been renovated and converted into apartments such as the Sundowner Motel and other affordable multi-family housing projects including Casitas de Colores among many more.

Luna Lodge, a WFHTF supported project, generated \$490,976 in gross receipt tax for the City of Albuquerque in 2015. The Sundowner, another WFHTF mote/hotel multifamily conversion project that took off after the Luna Lodge conversion generated \$510,754 in gross receipt tax for the same period. The Luna Lodge project not only had a positive effect on revenues generated, but also on local employment opportunities. The 30 unit multifamily Luna Lodge conversion directly created 40 jobs and indirectly created 18 jobs.

"What has been a blight on the historical Route 66 for years will now be an asset for our community. The public private partnership between NewLife Homes and MFA is a role model example for the kind of revitalization my senate district needs more of." **-Senator Tim Keller**

Case Study 4. Red Lion Kissimmee, Florida

Hotel/Motel: Red Lion Hotel
Location: Kissimmee, Florida
Year Converted Into Apartment: 2020
Number of Rooms/Units: 339+
Number of Buildings: 15
Starting Rent: \$850 monthly
Financing: Private financing: \$40 million+ Equity (T2 Opportunity Fund V, LP)

Established in 2011, Carter Hospitality Group, LLC (CHG), an affiliate of SGI Partners, is a family-owned hospitality company where they are the owner-franchisee for Red Lion Hotel Orlando-Kissimmee. This was the first Red Lion branded franchise location in Florida. Officially opening in December 2015, the two-story Red Lion sat on 23 acres of grounds, fountains water and community fire pits. The Red Lion hotel property featured 555 hotel rooms, 3 pools, 4 private event rooms, 2 fitness centers, children's playground, volleyball court concierge services, business center, Angel's Rock n' Roll Café-Bar and more and was located a ½ mile away from the Walt Disney World Resort.

While Red Lion was new to the area, the building that the Red Lion occupies has been around for some time with different portions of the structure dating back to the 1974 and a renovation in 1994. The Red Lion hotel was the result of a new CHG ownership, CHG's rebranding of the hotel from Maingate Resort and Spa and a multi-million dollar renovation. But, less than 4 years after



Exterior of the newly opened Red Lion Hotel in Kissimmee, Florida
Source: [Kayak.com](https://www.kayak.com)

Case Study 4. Red Lion

Kissimmee, Florida

opening, Osceola County records indicated a potential redevelopment of the property into a 400-unit workforce housing apartments with 30,000 sq. ft. of retail and office space in addition to repurposing the existing conference room and restaurant area. The development would also include the development of a northwest corner parking field for 3.5k sq. ft. building use.

Land use attorney GreenbergTraurig GT) requested for zoning verification of the property on May 9, 2019. The property lies within the Urban Growth Boundary (UGB) of Osceola County and zoned Planned Development (PD) with a Tourist Commercial land use and allowed for expanded commercial uses. The project uses were to remain the same as they were previously permitted.

On June 6, 2019, architect Bruce Arthur of WHA Design met with county officials regarding the Development Review process to discuss site plans, development of regional impact (DRI) or development of county impact (DCI), Conditional Use Building Code, and Dimensional Variance (variance permitted a lot area variance of 7.45 acres from the 25 acre requirement) for the redevelopment of the existing Red Lion Hotel.

The site development plans refer to the redevelopment of the hotel as the Maingate Village where minor modification to the interior would be required for converting from hotel use. There would also be a interior remodel of the units and all site work would be done under Phase 1. Total acreage would be 15.8 on 2 lots with no residential subdivision. The current zoning district was hotel but the developer request to rezone as commercial tourist (CT) and the plans status indicates the redevelopment would fall under permitted use as rezoning would allow for multifamily housing as well as the purported retail.

Acquisition, Project Development and Sources of Financing

By mid-summer 2019, the developer, ICM Development Group (ICM), a full-service real estate development, management, design and construction organization was negotiating with CHG for the Red Lion property. Cornerstone Asset Services (CAS) would be a joint partner with ICM on the project.

A Special Warranty Deed was made on December 6, 2019 between CHG – Maingate, LLC and Maingate Village, LLC (MV), (“Grantee”). MV acquired the property for \$17,700,000. Although the sale would not be announced by T2 Capital Management, LLC (“T2”) an Illinois-based real estate investment company, until January 13, 2020, the grantor, T2, announced a partnership with Orlando-based Cornerstone Asset Services whom would hold an equity position in the project and manage the property daily. ICM Development is a partner on the project as well.

The general contractor was Midway Enterprises Inc. and on December 16, 2019, building permits were issued for Phase 1 – building 15 with 14,084 sf, building 14 with 13,044 sq. ft., building 12 with 16, 858 sf. ft., building 11 with 15,838 sq. ft., building 10 with 12,706 sq. ft.. of interior demolition including new door opening, new electrical, plumbing, closets bathrooms and more.

Case Study 4. Red Lion

Kissimmee, Florida

T2 announced construction would commence in February 2020 with an expected completion of early 2021. The multi-family room would be completed in phases and would predominately cater to Disney employees and local service professionals. T2 also indicated that rents would start at \$725 monthly for which half of the total units would be studios. The multi-family conversion is estimated to cost \$40 million.

The project continued to make progress as various project reviews or verifications would be approved or accepted e.g. plans, 911 review, engineering review, impact review, fire review, environmental review, GIS, review, zoning reviews, etc. Building permits were in like manner.

A permit was issued for the site development plan for Phase 2 (interior of buildings 1-9) on March 24, 2020. Phase II also included new kitchen units, closets, separate electrical metering of all units and much more. While the project is quite large, comprehensive and beyond the scope of this report, the project is still under construction as the planned commercial and retail space. Although the project is currently under construction as of 4/23/2021, the Maingate Village is open with vacancy.

At the end of October 2020, residents moved into their new apartments at Maingate Village. More than 130 units were completed by the end of November. Maingate Village offers studio, one-bedroom and two-bedroom units. Studio units start at \$850 monthly and are 350 sq. ft., one-bedroom



Studio apartment at the Maingate Village.
Source: [Apartments.com](https://www.apartments.com)

Case Study 4. Red Lion

Kissimmee, Florida

units start at 700 sq. ft. and are \$1,125 per month and two-bedrooms starting at 1,050 sq. ft. and are \$1,445 a monthly. Amenities include three heated pools, basketball and tennis courts, fitness center, playground, business center, meeting/banquet facilities, cabana, granite countertops air conditioning, stainless steel appliances just to name a few.

In order to fund the project, T2 utilized the T2 Opportunity Fund V for equity by offering stock/securities. The fund pooled investment fund interests with a minimum of \$250,000 investment from any outside investor. T2 has more than 23 investors who have invested in the T2 Opportunity Fund V including CAS who holds equity in the project.



Aerial view of the new Maingate Village, formerly Red Lion Hotel.
Source: Apartments.com

Case Study 5. Ann River Motel/Go Ministries Mora, Minnesota

Hotel/Motel: Ann River Swedish Motel/Go Ministries

Location: Mora, Minnesota

Year Converted Into Apartment: 2017

Number of Rooms/Units: 23 and 5 Bedroom Home

Number of Buildings: 3

Starting Rent: \$495 monthly

Financing: private financing: Approximately \$480K - \$600K cash self/private-funded

Sitting on 5 acres, the Ann River Motel structure was built in 1960. The Ann River Motel parcel consists of a motel complex and a five-bedroom home. The Anne River Motel is located in Kanabec County and is 72 miles north of Minneapolis on main highway 65 in Mora, Minnesota. In 1978, the motel underwent renovations and in 1995 a newer motel complex was added where motel units totaled 23 with color cable TV and in-room coffee. The motel building size reached 7,500 sq. ft.. The single-story, five-bedroom, two-bath home had a total of 4,480 sq. ft.. The property was zoned for residential and commercial. In the 2000's, the motel would be utilized by Go Ministries, a traveling ministry for all ages.

Spanning the beginning of 2000 to 2007, the motel was sold four times. The motel was sold for \$378,500 on October 31, 2001, sold again on September 9, 2003 for \$443,000 (17% increase), sold to Bengtson Investments LLC for \$472,000 on April 30, 2007 for a 7% markup, and on May 21, 2007 the property was sold for \$378,500 for an 20% decrease.



Exterior of the former Ann River Swedish Motel/Go Ministries structures.

Source: Coldwell Banker

Case Study 5. Ann River Motel/Go Ministries

Mora, Minnesota

A little over eight years later, in October 2015, the 5 acre, hotel/motel, residential, commercial, five bedroom home and 23 room motel property would go up for auction. After being on the city's tax rolls, the property would be listed for sale on May 26, 2016 and be sold a month and a half later.

Acquisition, Financing and Project Development

The property was acquired by JCF Properties LLC (JCF) via quit claim deed on July 13, 2016 from Americana Community Bank. JCF Properties paid \$150,000 cash for the property at \$31 sq. ft. and a 60% reduction from the last time the property was sold. For 2016, the county assessed a \$227,700 total market value for the property, \$70,000 land value and \$157,700 building value.

JCF Properties acquired the property with the intent to convert the motel into a total of 21 studio, one-bedroom and two-bedroom apartment units and the former home into five-seven units with each building having their own laundry room according to the proposal submitted to the City of Mora. Not only would the interiors be converted but the exterior would undergo improvements as well including: siding, water heaters, windows, roofing, entry doors, sidewalks, patios and parking lots. The conversion would also require the new electrical and plumbing for which the total cost of all repairs was estimated to range from \$330k - \$450k. The proposal also indicated that rents would range from \$495-\$895/monthly for a 12-month lease.

Construction on the former motel property that would be converted into no more than 28 apartment units (City Council of the City of Mora conditions) began soon after JCF's acquisition. The target completion date for the two motel structures was February 2017 while the conversion for the house was scheduled for September 2017.

On October 17, 2016 JCF submitted a request for a Conditional Use Permit and on November 7, 2016 the Planning Commission of the City of Mora endorsed the approval of the Conditional Use Permit that would consent to multiple dwelling buildings containing nine or more dwelling units in the R-3 (multiple dwelling district). The Mora City Council was to review the proposal on November 15, 2016.

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At the November 15, 2016 meeting, the hearing result in the council approving JCF's submission based on findings required by their Zoning Code Section 150.036 (Conditional Uses), Subd. E (Standards). In short, findings meet criteria such as the proposed use is consistent with the intent of the zoning district and complying with the Comprehensive Plan Land Use Map (residential/commercial conversion). While approved, the City Council of the City of Mora provided that the Conditional Use Permit was subject to conditions where if all conditions were not met within one year, the permit would become null and void.

With the renovation progressing, in May 2017, JCF had a Economic Development Authority (EDA) Review Committee meeting, a special EDA meeting in June and numerous conversations with Kanabec County with respect to requesting, applying and tax impact analysis for Tax Abatement. Soon thereafter, a Business Subsidy Agreement (BSA) was developed.

The city council in return scheduled a public hearing on June 20, 2017 on the matter.



Exterior of the remodeled Ann River Motel now Mora Flats.
Source: Apartments.com

Case Study 5. Ann River Motel/Go Ministries

Mora, Minnesota

On June, 20, 2017, JCF provided the county and Mora City Council an application for tax abatement and indicated that there would be approximately twenty apartment units on the former motel property. The city council approved the JCF's Tax Abatement application where total tax abatement would not exceed \$20,000 and payable over ten years, up to \$2,000 per year with an annual review in November. The abatement would begin in December 2017 but JCF was required to submit reports in order to receive the tax abatement benefits. The EDA recommended the approval of the tax abatement. Typically, the newly adopted Tax Abatement Program criteria requires an application for tax abatement prior to project work commencing, but the council waived this requirement for the former motel property.

Towards the end of November, JCF was on track per their BSA as they submitted their 2017 Tax Abatement Reports to Mora City Council. The BSA provided a targeted dollar amount per room per year abatement payment formula (\$100/ room/ year), that is predicated on the number of room available for occupancy as of the beginning of November every year. As of December 2020, JCF has received three tax abatement payments from the City of Mora totaling \$4,033.98.

At the time JCF provided their report, JCF had completed eight of the twenty proposed apartment units and the remaining units were completed prior to the close of 2017. As of October 16, 2018, JCF certified that they had 21 units available for occupancy at their completed redevelopment of the former Ann River Motel, now turned Mora Flats apartments.

The Mora Flats as of April 13, 2021, features 8 studios, 9 one-bedroom one-baths, 3 two-bedrooms one-baths and an unlisted unit for a total of 16,800 sq. ft. that has an average occupancy of 98%. Unit amenities include, granite countertops, Internet access, dishwasher, cable, air conditioning and more.

The JCF acquired the property, Kanabec County records indicate continued annual increases in property assessments. From the year of acquisition, 2016, building values increased from \$157,700 to \$425,400 in 2020 and land values increased from \$70,000 to \$196,200 over the same period with an estimated total market value of \$621,600 in 2020.

Appendix: Residence Inn by Marriott Winston-Salem, North Carolina

Appendix: Residence Inn by Marriott Winston-Salem, North Carolina

Metric Partners Growth Suite Investors, L.P., (MPGSI), a California limited partnership purchased the 88 room Residence Inn-Winston-Salem in June 1988. The average occupancy rate was high and stable as occupancy rates reached 85%, 85%, and 84% in 1994, 1995 and 1996 respectively. The average daily room rate at the Residence Inn Winton-Salem saw increases with rates increasing from \$65.47 in 1994, \$71.94 in 1995 and \$75.95 in 1996.

On December 30, 1997, MPGSI unloaded the property which then had an average occupancy rate of 84% and an average daily room rate of \$79.74. MPGSI granted 100% ownership deed to Innkeepers RI General L.P. on January 2, 1998 for \$5,830,000.

Innkeepers RI General is a self-administered real estate investment trust ("REIT") whose business strategy emphasizes acquiring higher-end extended-stay hotels. The Residence Inn by Marriot Winston-Salem saw the continued management of Residence Inn by Marriott, Inc., an affiliate of Marriott International, Inc., with the lessee providing \$583,801 in base rent up to a \$1,821,000 threshold, in addition to 68% of room revenue in excess of the threshold. The year ended December 31, 1997 saw revenue per available room (RevPAR) at \$67.22.

However, room revenue generated for the Residence Inn by Marriot Winston-Salem continued to decrease except in 2000. Room revenues were \$2,212,999 (1998), \$1,998,420 (1999), \$2,045,623 (2000), \$1,716,913 (2001), and \$1,676,508 (2002).

The average occupancy rate had managed to remain stable until 1999 where the occupancy rate decreased by a rate of 8.08% year-over-year as the property record a 77.29% rate. The occupancy rate continued to fall every year thereafter until reaching 67.55% at the end of 2002. Other metrics decreased to new lows in 2002 as well: RevPAR continued its downward trend until reaching \$52.2 in 2002 and the average daily room rate decreased as well as rates declined to \$77.27.

As of December 31, 2002, the property was up for sale as part of the owner's hotel disposition strategy, was under contract to be sold as of August 11, 2003 and on September 10, 2003, the 88-room Residence Inn by Marriott Winston-Salem was sold for \$2.1 million to Noble Winston Salem I, LLC with grand proceeds totaling \$2,050,000 and for a loss of \$57,000. An exception in the exchange of the title of the property includes ad valorem taxes for the current and subsequent years and permitted exceptions for rights of various easements and continuous and uninterrupted flow of waters.

Appendix: Residence Inn by Marriott Winston-Salem, North Carolina

Project operations of the Residence Inn Winston-Salem saw total revenues continue an upward trend where total revenues increased from \$1,903,000 in 1994 to \$2,216,000 at the close of 1996. Total expenses for the property from 1994-1996 were \$1,932,000, \$2,001,000 and \$2,063,000 respectively. The property was profitable after capital improvements such as meeting room, gatehouse and room renovations over the same period of time with the exception of 1996 where operations of the property saw a loss of \$31,000 due to slower revenue growth and rising operational expenses. In 1996, total room revenue increased at a slower pace of 6.4% (9.4% in 1995) as the local economy started to transition from an industrial based economy to a service-oriented economy and as many of the area's biggest employers relocated to other localities. At the same time, operations expenses increased.

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On September 26, 2007, Noble Winston Salem I, LLC obtained a loan for \$7,680,000 from Greenwich Capital Financial Products, Inc (GCFP) that was backed by Deed of Trust, assignment of rents and security agreement, assignments of leases and rents where the Royal Bank of Scotland plc (RBS) held the loan, the payee of the promissory note on the original loan amount, the beneficiary according the security agreement and assignment of leases and rents, and the beneficiary of the balance originating from the loan documentation. Considering there were more than one default with respect to the Deed of Trust, assignments of rents and security agreements to GCFP, the entire principal amount of the loan including accrued interest was due and outstanding with GCFP having the right to foreclose on the security. To avoid foreclosure costs and to conclude liabilities, Noble Winston-Salem I, LLC and Noble Winston Salem Tenant, LLC voluntarily relinquished the property to RBS among other terms and provisions.

Appendix: Residence Inn by Marriott Winston-Salem, North Carolina

After 8 years of ownership, Noble Winston Salem I, LLC sold the property to Rivergate Acquisition Company, LLC (RAC) on November 21, 2011 for \$4 million. The property deed transfer was executed, delivered and accepted as a special warranty deed in lieu of foreclosure with numerous exceptions. This posed significant legal implications that were worked through.

On April 24, 2014, RAC would unload the Winston-Salem area Marriott Residence Inn. Rivergate Acquisition Co LLC, an entity managed by RBS, sold the property to Winston-Salem Hotel Owner, LLC., a private investor and partnership between Los Angeles, California based real estate investment firm, Oak Coast Properties (OCP) and Illinois based, real estate and development company, The Harp Group, Inc. (THG) for \$5,900,000. The deal was arranged by HREC Investment Advisors.

The 88-room extended stay was managed by Westmont, Illinois based Portfolio Hotels & Resorts (PHR). PHR was the managing partner in the \$5,900,000 transaction whilst OCP retained majority ownership status. In 2015, Thorofare Capital funded the bridge loan refinancing of the Residence Inn by Marriot Winston-Salem where the owners retired \$4,900,000 of debt and utilized imputed equity towards the down payment on another Residence Inn located in South Bend, Indiana as RevPAR saw a 9.3% growth rate through May 2015 and 8.9% TTM. Nearly six years later and the Residence Inn by Marriott Winston-Salem was on the brink of foreclosure. The hotel was so close to foreclosure hotel management provided abrupt 1-day notice to guests but the following day the apparent financial difficulties the hotel was experiencing was remedied by an entity associated with the hotel owners and managers, Portfolio Hotels and Resorts.

The following week the hotel provided a two-day notice to guests that they would have to vacate. The property proceeded with foreclosure as they filed a notice in Forsyth County Court that took place on January 13, 2020 with a scheduled hearing on February 11, 2020. January 13, 2020 court filing indicates that the hotel owners were in default for two properties, Residence Inn Winston-Salem (\$4.9 million) and another Residence Inn in South Bend, Indiana (\$5.5 million) where both Residence Inn's were cross-collateralized (one loan used as collateral for another loan) for loans that equaled \$10.5 million to New York-based lender, Ladder Capital Finance LLC (LCF).

Appendix: Residence Inn by Marriott Winston-Salem, North Carolina

After advertisement on March 5, 2020, the property went up for sale to the highest bidder at the Forsyth County Courthouse where LCF provided the highest and final bid for \$3,700,000. On June 11, 2020, the substitute trustee's deed was transferred to LRI Winston Salem NC LLC lender, LCF, as they acquired the Residence Inn by Marriott Winston Salem, NC via foreclosure.

The Residence Inn by Marriott was previously utilized as collateral for a mortgage loan receivable marked for investment with a net basis of \$3,800,000. The former owners of the Residence Inn by Marriott procured a third-party to perform the appraisal of the property. A \$3,900,000 fair value was determined using ground lease valuation and income methodology to assess the value. The appraiser applied a terminal cap rate of 9.5% and a discount rate of 13.5%. Although there was no loss or gain arising from the foreclosure of the loan, on September 29, 2020, the foreclosed Residence Inn by Marriott Winston-Salem was sold for a realized gain of \$844,000. Ladders' net sales proceeds on the property were \$4,647,000.

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500 New Jersey Avenue, NW
Washington, DC 20001
202.383.1000