UNITED STATES BANKRUPTCY COURT
DISTRICT OF NEW HAMPSHIRE

In re: Bk. No. 01-12829-JMD
Chapter 11

River Valley Fitness One, L.P.,
Debtor

Laconia Savings Bank,
Movant

v.

River Valley Fitness One, L.P.,
Respondents

James W. Donchess, Esq.
Steven M. Notinger, Esq.
DONCHESS & NOTINGER
Attorneys for Debtor

Robert M. Koch, Esq.
Law Offices of Robert M. Koch
Attorney for Laconia Savings Bank

MEMORANDUM OPINION

I. INTRODUCTION

The Court has before it Laconia Savings Bank's (the "Bank") Motion to Determine Valuation of Security Pursuant to Bankruptcy Rule 3012 (the "Motion") (Doc. No. 95). The Bank financed the construction of the River Valley Club (the "Club") and the purchase of the real estate. The construction loan was never converted into a permanent loan, leaving the Bank a claim that is secured by the Club's real property but not its personal property. At issue before the Court is the

value of the real property. After hearing from both parties on October 7, 8, and 21, 2002, the Court took the matter under submission.

This Court has jurisdiction of the subject matter and the parties pursuant to 28 U.S.C. §§ 1334 and 157(a) and the "Standing Order of Referral of Title 11 Proceedings to the United States Bankruptcy Court for the District of New Hampshire," dated January 18, 1994 (DiClerico, C.J.). This is a core proceeding in accordance with 28 U.S.C. § 157(b).

II. BACKGROUND

A. The Facility

River Valley Fitness One, L.P. (the "Debtor") purchased a 3.6 acre site in Centerra Business park in March of 1997 for $530,000 and completed construction of the Club in 1998. The Debtor obtained a $3.6 million construction loan from the Bank in early 1997. The cost of constructing the Club was significantly greater than originally projected. The Club has a capacity of 3,300 members, but active membership appears to have leveled out at about 2,500. The land and buildings which constitute the Club are assessed by the City of Lebanon at $4,395,700. Because the equalization ratio for the City of Lebanon is eighty-eight percent, the assessment is equivalent to a fair market value of $4,995,114. The Club offers indoor and outdoor pools, a lap pool, squash and basketball courts, a rock climbing wall, aerobic studio, childcare facility, weight training machines, cardio vascular equipment, women-only training areas, whirlpool, sauna, beauty salon, massage and hydrotherapy treatments, and locker and shower areas.

B. The Valuation Evidence

The Debtor and the Bank both offered expert appraisal testimony on the value of the real

property. Both appraisers agreed that the income capitalization approach was the preferred method of valuing a facility such as the Club. Both appraisers utilized the direct capitalization method. Direct capitalization determines the value of an income producing property by first determining the stabilized net operating income ("NOI") and then dividing by a capitalization rate. This approach is based upon the assumption that at an assumed requirement for a rate of return for an investment, an investor would pay a certain value in order to obtain the benefits of an expected future income stream.[1]

However, the use of the direct capitalization approach is not simple or straight forward. Deriving NOI is at best problematic. An appraiser typically starts with either actual or assumed income and expense information and then makes adjustments based upon those matters which in his or her judgment are inappropriate, inconsistent with current or proposed operations or would otherwise make the NOI misleading.

The appraiser also must determine an appropriate capitalization rate ("CAP rate"). The determination of a CAP rate is influenced by four factors: 1) the "riskless" rate of return available from interest on long-term government bonds; 2) a compensation factor for loss of liquidity; 3) compensation for "investment management"; and 4) compensation for risk. While the first of these factors can be determined from published market rates, the other three are estimations based upon market conditions and the property in question. A small change in the CAP rate can result in a large change in the property value.[2] While competent appraisers frequently agree on the range of

---

[1] For example, an investor who would be attracted to a property generating $100,000 in net income per year would be willing to pay $1,000,000 at a ten percent capitalization rate (the "CAP rate").

[2] If the required CAP rate in footnote 1 were increased to twelve percent, the value of the property generating the same $100,000 income stream would decrease by $166,667 to $833,333.

appropriate CAP rates for a particular property, the often disagree on which part of that range is the proper rate.

Accordingly, disputes over direct capitalization valuations frequently involve a dispute between expert appraisal witnesses over the assumptions and rationale behind the adjustments utilized in determining NOI and the selection of a CAP rate. Seemingly minor changes in assumptions or selected capitalization rates can result in material differences between the expert's final opinions of value. This adversary proceeding is no exception. The Bank's appraiser, Russell Thibeault, valued the real and personal property of the Club at $3,850,000. See Exhibit 115 at page 59. The Debtor's appraiser, Richard Caro, set the value at $2,024,510.[3] See Exhibit 81 at page 2.

1. The Bank's Evidence

The Bank's appraiser utilized unaudited financial reports for calendar year 2001 which were provided to him by the Club. He then made various adjustments to the financial performance of the Club for the purpose of his valuation. Because the Club had ceased operation of its restaurant during 2001, he removed from the Club's reported financial performance all income and expenses associated with the restaurant. Because the restaurant had been closed, the Great Room area of the Club was no longer utilized for the production of income. The Bank's appraiser proposed that this area be converted into office space at a cost of $235,000 which he estimated would produce $47,200 per year in additional rental income. The Bank's appraiser also believes that the property tax assessment for the Club is excessive. Therefore, he removed real estate property taxes from the determination of NOI and accounted for property taxes by increasing his

---

[3] Both of these values represent the value of all of the Debtor's assets as a going concern, not simply the real property which is the Bank's collateral.

Cap rate by 2.64%. This increase appears to be based upon the assumption that the Club's property assessment for real estate tax purposes will change to result in a tax expense equal to the effective tax rate applied to the final appraised value as determined through the Bank's appraiser's analysis. The Bank's appraiser also removed the general partner and subordinate special fees totaling $74,680 and replaced them with an estimated off-site management fee of five percent of income or $37,255. Finally, the Bank's appraiser estimated the annual cost of a reserve for the replacement and improvement of equipment at two percent of the Club's revenue or $66,631. As a result of these adjustments, he concluded that the Club's stabilized performance generated income before interest and depreciation and amortization of $600,457.

The Bank's appraiser developed his CAP rate by examining alternative rates of return and weighing the comparative risk associated with the Club's income stream as compared to alternative investments. The higher the risk, the greater return required to offset that risk. In his report, the Bank's appraiser explained in detail the assumptions and analysis behind his derived CAP rate. He developed his CAP rate through a weighted average of debt and equity rates of return assuming debt financing of seventy percent and equity of thirty percent. He selected a debt financing rate of nine percent, higher than the prevailing rate of eight percent, because of the property's financial problems. Due to the Club's history and risk, he selected an equity return rate of twenty percent. The Bank's appraiser had determined that Bally's Total Fitness Holdings, a publicly traded chain of health clubs with less perceived risk, was returning 14.7% for equity.

Finally, based upon his belief that the Club was over assessed for real estate tax purposes, the Bank's appraiser stated that the proper way to account for property taxes in such an instance is to add the effective tax rate to the weighted capitalization rate. He determined that in 2001 the equalization assessment ratio in Lebanon was eighty-eight percent and its tax rate was $29.98.

Multiplying these two factors together accounts for the effective tax rate. Based upon these assumptions and data, the Bank's appraiser developed his weighted CAP rate as follows:

	Portion	Annual Constant	Weighted Average
Mortgage (Prin.&Int.)	0.70 *	0.1080 =	0.0756
Equity	0.30 *	0.2000 =	0.0600
Weighted Rate			0.1356
Effective Tax Rate	88% *	$29.98	0.0264
Weighted CAP Rate			16.20%

Using the direct capitalization approach, the Bank's appraiser divided his stabilized current income of $600,457 by his weighted CAP rate of 16.20% to arrive at a value for the Club of $3,707,000. He also developed a value of $4,112,000 using the discounted cash flow approach. Combining these two values and giving more weight to the direct capitalization approach the Bank's appraiser's final value was $3,850,000. Because this value included the real estate, the assumed great room improvements and the equipment, the final valuation for the real estate was obtained by deducting the estimated cost of the great room improvements ($235,000) and the equipment ($450,000) to arrive at a final real estate value of $3,165,000 as of July 5, 2002.

2. The Debtor's Evidence

The Debtor's appraiser, Richard Caro, used a combination of audited and unaudited financial records to derive his value as of June 30, 2002. The original report dated December 19, 2001 determined a value for the Club as of August 31, 2001. That report was updated on October 4, 2002 to determine a revised valuation as of June 30, 2002. The update was based upon

operating results for the twelve months ending June 30, 2002. The core of the Debtor's appraiser's original expert report is disclosed in three exhibits (Exhibits I, II and III) consisting of five pages. The update itself was only five pages and consists solely of revisions to those exhibits and a copy of a handwritten spread sheet showing the Debtor's appraiser's adjustments to the operating results for the twelve months ending June 30, 2002. While the original and updated reports reveal the numbers used by the Debtor's appraiser in determining a value for the Club, it does not always disclose the rationale for those adjustments.

In his updated report, the Debtor's appraiser indicated that he believed that the most recently completed twelve month period was the most representative time period to use to determine stabilized net income. Based upon the Debtor's internal financial statements he computed the base NOI as follows:

Income	$3,300,972
Less: Expenses	$2,746,340
Plus: Add Back Adjustments	$ 41,418
Base Net Operating Income	$ 596,050

The report states that all non-cash expenses (depreciation and amortization) and costs of financing (interest) were excluded in determining base net operating income. Although the updated report is not clear, it appears that these items were the "add back adjustments". The Debtor's appraiser then reduced the base operating income by five percent of gross annual revenue ($151,148) as a reserve for replacement of equipment. It was his testimony that 5% of the Club's gross annual revenues should be dedicated to the renovation of space, replacement of equipment, purchase of new equipment and repairs. The Debtor's appraiser also reduced base operating income by $40,000 to reflect the additional cost of compensation for a managing general partner. He believes that the Debtor's income is understated because the current general partner serves as part of the

management team without compensation. This adjustment renders the Debtor's income comparable to other facilities and is a deduction which a buyer would make in determining a purchase price. After adjustments, the Debtor's appraiser determined that the "stabilized income" or NOI for the Debtor was $404,902.

In stark contrast to the Bank's appraiser's report, the Debtor's appraiser's report is strikingly devoid of the methodology and assumptions behind his direct CAP rate. The Debtor's appraiser testified that he used 44 different variables in determining his CAP rate of twenty percent; however, there was no explanation to what those 44 variables actually were or why they were used. In his report the Debtor's appraiser states that "the selling price for clubs which own the real estate has been between 5-7 times the stabilized income value" or capitalization rates of between 14.70% and 20.00%. The Debtor's appraiser also references another method for determining the capitalization rate from an investor's perspective. He references the following model from a book he authored in 1976 and then updated in 1994:

Base Rate AAA Bonds	5.50%
+Lack of Liquidity of the Business	4.00%
+Management Intensive Business	4.00%
+Fast Changing Industry	3.50%
+Potential Exposure for Regular Investment Money in the Club	2.00%
+Lack of Collateral from this Investment to Use for Other Loans	1.00%
Total	20.00%

The Debtor's appraiser states that the above calculation "if entirely applicable to the [Debtor], would imply a multiple of '5' or a capitalization rate of '.200' for stabilized income value – which was the actual calculation used." The original report states that a CAP rate at the high end of the range was used by the appraiser due to the lack of growth potential in the Debtor's marketplace,

ease of entry in the marketplace for competitors, limited potential for price increases, the Chapter 11 bankruptcy proceeding and unfavorable aspects of the layout and functionality of the Debtor's building. Taking the Debtor's appraiser's NOI of $404,902 and dividing it by his overall CAP rate of twenty percent results in a value of $2,024,510.00 as of June 30, 2002[4].

III. DISCUSSION

A. The Legal Standard

The question of valuing property in the context of a Chapter 11 case is a fact-sensitive one; valuation is done on a case-by-case basis. See Financial Sec. Assurance, Inc. v. T-H New Orleans Ltd. P'ship (In re T-H New Orleans Ltd. P'ship), 116 F.3d 790, 799 (5th Cir. 1997); In re Melgar Enter., Inc., 151 B.R. 34, 39 (Bankr. E.D.N.Y. 1993) (finding "[V]aluation is to be determined on a case-by-case basis."). However, where a debtor proposes to retain property under a plan of reorganization, the Court must value the property in light of the proposed post-bankruptcy use of the property. Winthrop Old Farm Nurseries, Inc. v. New Bedford Inst. for Sav. (In re Winthrop Old Farm Nurseries, Inc.), 50 F.3d 72, 75 (1st Cir. 1995). As a general rule, that value will be the replacement, or fair market value, of the property valued in a manner consistent with the debtor's use of the property. Associates Commercial Corp. v. Rash, 520 U.S. 953, 963 (1997) (citing Winthrop, 50 F.3d at 75). Finally, it is generally agreed that the property should be valued as it stands at the time of the proceeding. See, e.g., In re Tamarack Trail Co., 23 B.R. 3, 5-6 (Bankr. S.D. Ohio 1982).

---

[4]It must be noted that this value is the going concern value of the Club, not the value of the real property. The Debtor's appraiser never offered an opinion on the value of the real property alone.

B. Stabilized Net Operating Income (NOI)

The Court is not bound by the opinion of any expert witness and may accept or reject expert testimony in the exercise of sound judgment. Helvering v. Natl. Grocery Co., 304 U.S. 282, 295 (1938). Both the Bank's appraiser and the Debtor's appraiser provided credible testimony; the difficulty for the Court lies more with comparability rather than credibility. As mentioned earlier both experts used financials provided by the Debtor; however, the Bank's appraiser used unaudited financials for 2001 and the Debtor's appraiser used a combination of audited financials for the last six months of 2001 and unaudited financials for the first six months of 2002. Compounding the comparison problem is that the Debtor's appraiser's report does not always explain the assumptions and analysis behind his adjustments. For example, Exhibit 81 includes what appear to be copies from an account ledger. Recorded on these copies are handwritten calculations. The left hand column lists the last six months of 2001 and the first six months of 2002, and the following columns are labeled "Revenue," "Expenses," "NOI," "Add Backs," and "EBITDA Revised Totals." While the mathematics are easy to follow it is not possible for the Court to ascertain with certainty what the raw numbers are composed of. What is being calculated in "Revenue"? What are the "Add Backs"? Have the partnership fees been deducted out? Despite the lack of clarity or difficulty in determining the basis for the Debtor's appraiser's opinion, the reports and testimony are the only evidence before the Court. Therefore, the Court will utilize what evidence has been offered and admitted.

After a careful analysis of the reports and expert testimony, the Court has reconciled the numbers which form the basis for the opinion of each expert and reorganized them for purposes of analysis. Exhibit A to this opinion shows the results of that analysis in tabular form together with the Court's determination of the differences between the appraisers.

1. Income and Expenses

In compiling Exhibit A, the Court adjusted the income and expense assumptions used by the appraisers to remove the four items on which they disagreed. The Bank's appraiser used unaudited calendar year 2001 figures provided by the Debtor. The Debtor's appraiser completed his updated report utilizing audited financials for the last six months of 2001 and unaudited figures for the first six months of 2002. The Debtor's operating results during the year ending June 30, 2002 were much improved over the similar period a year earlier. The Debtor's appraiser initially valued the Club at $1,770,870 as of August 31, 2001. Using the same methodology and assumption with figures for the year ending June 30, 2002 his valuation increased 14.3% to $2,024,510. Because the evidence reflects that the Club's financial performance is improving, the Court shall rely on the most recent income and expense numbers, which are the ones used by the Debtor's appraiser.

The Bank's appraiser also completed a discounted cash flow analysis which resulted in a valuation of $4,112,000. However, that analysis was based upon a number of assumptions which were vigorously challenged in both direct examination of the opposing expert and on cross examination. The major dispute centered around a projection of revenue increases of five percent per year over the next five years. The cornerstone of this projection was a projected increase in memberships. The Debtor's appraiser disputed that the market would support any significant increase in memberships based upon the demographics of the Lebanon, New Hampshire area and the fact that the Club fees are at the top of the local market. The Debtor's appraiser believed that there was little room for significant membership increases and that revenue could increase with the rate of inflation in operating costs, if marketing efforts continue and the Club's equipment and facilities was maintained at a level consistent with its fees. The Bank's appraiser recognizes that

because the discounted cash flow analysis depends on projections of future earnings it is less certain than an analysis based upon current earnings. See Exhibit 115 at page 55. The Court finds that the testimony at trial raised substantial questions concerning the ability of the Club to increase membership or fee income beyond the rate of inflation. Accordingly, the discounted cash flow analysis used by the Bank's appraiser is too speculative and shall not be utilized by the Court in determining the value of the Club.

2. Great Room Lease

The Bank's appraiser believes that the value of the Club should take into consideration the incremental value obtained by renovating the great room into office space and leasing it to third parties. In his appraisal report he adds projected net rental income of $47,200 to his projected NOI and subtracts the capital cost of the improvements ($235,000) from the final value. In his opinion the additional rental income adds $291,358 to the value of the Club at an estimated capital cost of $235,000 for an incremental increase of $56,358 in value.

The Court does not agree with the Bank's appraiser that such an analysis is appropriate under the facts of this case for two reasons. First, this Court is charged with valuing the Club in light of the Debtor's proposed post-bankruptcy use of the property. Winthrop Old Farms Nurseries, 50 F.3d at 75. No evidence was presented which would indicate that the Debtor has any intent to renovate and rent the great room as office space. Second, the Bank's appraiser testified that the highest and best use of the property was to continue the current operation of the Club. Therefore, the fair market value of the Club must be based on that use. Even if a prudent buyer might plan to perform such renovations, no evidence was offered to support an argument that such a buyer would share any such incremental increase in value with the Debtor. In the Court's

experience, buyers do not typically share upside potential on such alterations to a property when they bear all of the risk.

3. Real Property Taxes

The Bank's appraiser increases his projected NOI for the Club by adding back the $128,182 real property tax bill for the 2001 year. He then lowers the value of Club by adding a property tax factor to his CAP rate. The problem with this approach is that it assumes that an owner of the Club will secure an agreement from the City of Lebanon and receive an abatement on the Club's assessment for tax purposes. No evidence was presented to establish that it is likely that the owner of the Club will receive any such abatement. Accordingly, for the reasons stated above on the great room lease income, the Court shall not account for real property taxes in the manner used by the Bank's appraiser. The Debtor has not received an abatement and any hypothetical buyer who takes the risk of not receiving any such abatement would be unlikely to share that benefit with the Debtor. The Court shall add back the amount of the 2001 tax bill in determining NOI.

4. Offsite Management

Both appraisers made adjustments to account for compensation of management. The Bank's appraiser deducted $82,360 in general partner and special fees and replaced them with $37,255 in "offsite management" fees resulting in an increase in NOI of $45,105. It appears that the Bank's appraiser believes that the current fees are excessive, although his report contains little explanation. See Exhibit 115 at page 49. The Debtor's appraiser increased expenses by $40,000 to reflect his opinion that the current compensation for a general partner ($25,000) is below market which he states should "range from $80,000 - $90,000 plus bonus and a range of benefits." See Exhibit 81 at page 3. His appraisal report offers little analysis or support for this adjustment.

The question before the Court is whether to adjust the $82,360 expended by the Debtor for management fees during calendar year 2001 upwards to $122,360 used by the Debtor's appraiser or downward to the $37,255 used by the Bank's appraiser. The adjustment by the Bank's appraiser would increase the value of the Club, using his CAP rate, by $278,426.[5] The adjustment by the Debtor's appraiser would lower the value, using his CAP rate, by $200,000.[6] The difference in final valuation of $478,426 is material. Yet neither appraisal report contains any significant detail regarding the rationale or market justification for the adjustment. Accordingly, in the absence of evidence compelling an adjustment in this item, up or down, or any evidence that the Debtor intends to alter management compensation, the Court shall make no adjustment to this item.

5. Replacement Reserve

Both parties agree that the Debtor needs to fund a reserve to provide for the renovation and conversion/expansion of space, replacement of equipment, purchase of new equipment, carpeting/painting and major repairs beyond routine maintenance. They disagree on whether the replacement reserve should be funded at two percent or five percent of revenues. The Debtor's appraiser states that 5 - 6.5% is the industry norm and that a facility, such as the Club, whose fees are at the top of its market area needs to provide its customers with the perception of quality to match the fees charged. The Bank's appraiser's report does not discuss the reasons for his two percent funding assumption. The Court finds the Debtor's appraiser has more experience in the health club industry and more credibility on this issue. In addition, testimony was presented at

---

[5] $45,105 divided by 16.20%

[6] $40,000 divided by 20.0%

trial which indicates a number of deficiencies in the facility which would indicate the need for greater expense in this area to satisfy a customer base paying top dollar. Accordingly, the Court shall use a five percent replacement reserve.

C. Determination of the CAP Rate

As discussed above, the Bank's appraiser went to great lengths to explain the methodology behind his CAP rate and the Court finds the Bank's appraiser's methodology reasonable and his testimony credible. Unfortunately, the Court cannot say the same for the Debtor's appraiser's CAP rate. The Court recognizes the Debtor's appraiser's extensive background in the management of fitness centers and the economics of running such centers. However, due to a veil of secrecy imposed by the Debtor's appraiser the Court is unable to evaluate the assumptions behind his CAP rate or even his methodology. It is interesting to note that this is not the first time the Debtor's appraiser has refused to reveal the information behind his assumptions. In an unreported superior court case from Connecticut the court commented that,

> " . . . Mr. Caro's opinion heavily relied on performance comparisons between New Dimensions and other clubs, but because of self-imposed confidentiality restrictions, little information was provided to evaluate or determine whether these clubs had characteristics which could be fairly or appropriately compared to New Dimensions' characteristics."

Anton Nemth et al v. Robert Carroll, 1998 Conn. Super. LEXIS 897, 16 (March 30, 1998). That same Connecticut court found Caro's testimony as "being conjectural and insufficiently supported" and that Caro, "did not provide any specific data for Connecticut or even for the New England area generally; nor did he adequately explain or establish that the industry data relied on was applicable to . . . the New England area." Id. The Connecticut court finally stated that "the plaintiff must establish a foundation to enable the trier to make a fair and reasonable estimate of

the damages, and this foundation must rest upon more than surmise and conjecture." Id. at 17 quoting Ball v. Pardy Const. Co., 108 Conn. 549, 143 A. 855 (1928) (emphasis added) .

The Debtor's appraiser's report and testimony contains almost no analysis and little applicable data to aid the Court in determining an appropriate CAP rate for the Club. In his first report, he states that "[g]enerally, the selling price for clubs which own the real estate has been between 5 - 7 times the stabilized income value. This relates to capitalization rates between .200 - .147." Exhibit 1 at page 14. In his updated report he states "[t]he .200 rate (or a 5-multiplier) is used as a market indicator of value given the club's real estate ownership situation, previous history, trends, current standing in the local market, limited opportunity for growth, financial problems and recent industry club sales." Exhibit 81 at page 2. However, the Debtor's appraiser refused to disclose any data supporting his conclusions based upon claims of confidentiality. While the Court has no reason to doubt the sincerity of his testimony, the Court cannot compare the basis for his opinion against the information provided by the Bank's appraiser. Accordingly, the Bank appraiser's testimony on CAP rates was subject to cross examination and review by the Court and, therefore, is entitled to more weight.

The Bank's appraiser's CAP rate was computed as a weighted average of a twenty percent return on equity and a nine percent cost for debt financing. Assuming a loan to value ratio of seventy percent, the Bank's appraiser concluded that 13.56% was an appropriate CAP rate. The Court believes that determining the CAP rate based upon a weighted average of debt and equity financing is more reflective of reality than a single rate for all purposes. However, the testimony at trial does not support a finding that the Club could be financed at the loan to value ratio or the rate assumed by the Bank's appraiser.

Testimony at trial revealed repeated failures in the Debtor's attempts to refinance the Club.

The evidence supports a finding that debt financing for the Club would be available, if at all, at a premium rate and a higher loan to value ratio. If the Court were to assume a fifty percent loan to value ratio, a twelve percent interest rate and a twenty percent return on equity, the weighted CAP rate would be sixteen percent. Although the Debtor's appraiser did not supply any detailed support for his CAP rate assumptions, he does have extensive experience in the health club industry and his opinion on the range of CAP rates (14.7% to 20.0%) for facilities such as the Club also provide support for a CAP rate higher than that assumed by the Bank's appraiser. Accordingly, the Court shall employ a CAP rate at the midpoint of the range offered by the Debtor's appraiser or 16.67% (or a multiple of 6).

D. Determination of Value

For the reasons discussed above, the Court finds that the direct capitalization method is an appropriate method to use in valuing the Club. As detailed above and in Exhibit A to this opinion, the Court finds that the NOI for the Club is $444,902 and that after the application of a 16.67% CAP rate results in a value of $2,668,878 for the Club as a going concern. However, that value needs to be reduced by the value of the personal property in order to determine the value of the Bank's real property collateral. The Debtor's appraiser did not make any attempt to determine the value of the real property separate and distinct from the entire business operation. The only evidence of a value for the personal property is the $450,000 used by the Bank's appraiser. Accordingly, the Court subtracts this value from the total value of the Club to arrive at a value of $2,218,878 for the real property.

III. CONCLUSION

For the reasons set forth above, the Court finds that the fair value of the Debtor's real property, and the Bank's collateral, for purposes of confirmation is $2,218,878.

This opinion constitutes the Court's findings of fact and conclusions of law in accordance with Federal Rule of Bankruptcy Procedure 7052. The Court will issue a separate order consistent with this opinion.

DATED this 31st day of January, 2003, at Manchester, New Hampshire.

/s/ J. Michael Deasy
J. Michael Deasy
Bankruptcy Judge

EXHIBIT A

IN RE: RIVER VALLEY FITNESS ONE, L.P.
Bk. No. 01-12829

COMPARISON OF VALUATIONS

	Bank's Appraiser	Debtor's Appraiser	Court's Findings and Rulings
Income from Club Operations	$3,284,364	$3,300,972	$3,300,972
Operational Expenses	$(2,627,221)	$(2,576,740)	$(2,576,740)
Net Income	$657,143	$724,232	$724,232
Adjustments:			
Great Room Lease Income	$47,200	$0	$0
Property Taxes	$0	$(128,182)	$(128,182)
Offsite Management	$(37,255)	$(40,000)	$0
Replacement Reserve	$(66,631)	$(151,148)	$(151,148)
Net Operating Income	$600,457	$404,902	$444,902
Capitalization Rate	16.20%	20.00%	16.67%
Valuation of Club (Direct Capitalization)	$3,706,525	$2,024,510	$2,668,878
Valuation of Club (Discounted Cash Flow)	$4,112,000	$0	$0
Final Valuation of Club	$3,850,000	$2,024,510	$2,668,878
Less: Equipment	$450,000	$450,000	$450,000
Less: Great Room Construction	$235,000		
Real Estate Valuation	$3,165,000	$1,574,510	$2,218,878