

Tips for Buying & Selling a Hotel

Four of New England's best brokers describe the ins and outs of marketing a property.

New England Hotel Magazine interviewed four of the leading hotel brokers in New England to get their expert advice on how to buy and sell a hotel property. These brokerages represent the full breadth of the market, from B&Bs to mid-market to large-scale resorts throughout the region. They provided practical suggestions to buyers and sellers, as well as an analysis of the current market.

For nationally franchised properties, the Product Improvement Plan (PIP) is a critical part of the selling process. According to James F. O'Connell, principal of the O'Connell Hospitality Group, a full-service real estate firm based in Danvers, Mass., "It is the most important piece of information that a seller can provide, and that a buyer looks for." But, owners are frequently reluctant to invite the brand in to make a property inspection because owners believe they will then have to follow the new improvement plan.

"There is a misconception in the market," warns O'Connell. In reality, current owners need only follow their existing contract.

If a PIP is not conducted prior to an offer, the deal can be significantly jeopardized in two ways, according to O'Connell. First, offers are always made contingent on the PIP, which may require such a substantial investment in the property that the financing must be substantially readjusted or the deal becomes financially unfeasible. Second, it requires four to six weeks for a brand to complete a PIP, and in that time investors can become nervous and deal confidentiality can be lost—both risking the deal's viability.

Despite its importance, O'Connell encounters approximately 50% of his seller clients who are reluctant to have a PIP done on their property. "We advise them it is in their best interest," he says.

On the acquisition side, the most popular brands are Marriott and Hilton properties, according to O'Connell. The most sought after segments are upscale select-service hotels, with buyers preferring Courtyard by Marriott, Hilton Garden Inn, Residence Inn, or Homewood Suites by Hilton.

"Stay current with the changing standards that a brand issues," is O'Connell's advice to owners. "Keep spending the FF&E reserves on the property and maintain market share during this rough patch, he adds. "Keep putting money

into the property as if you were never going to sell it. Those are the properties that get more at the end of the day."

Roger A. Daigle, owner/president of Daigle Commercial Group in Portland, Maine, a statewide real estate brokerage firm specializing in the sale of hospitality industry properties and businesses of all types and size, sees many buyers of smaller properties falling into two categories. Those who are new to the hospitality industry comprise one group. They usually prefer a property in turnkey condition without deferred



O'Connell Hospitality Group is a national real estate advisory firm specializing in hotel, resort and finance transactions. The OHG team members' broad-based real estate experience includes transactions, consulting, finance, operations, food service, and project development, enabling OHG to provide its clients with multi-faceted solutions to their hospitality objectives.



O'Connell Hospitality Group, LLC
One Corporate Place, 55 Ferncroft Road, Suite 122
Danvers, MA 01923 Tel: (978) 777-8898



maintenance issues, and one that is currently performing well. The other group, those who have a hotel management background, are frequently looking to parlay their experience and go for the upside potential of a property that likely needs renovation. But, Daigle encourages sellers and buyers alike by describing the hotel market as having "no typical scenario." There are sellers with a wide variety of property sizes, types, amenities and conditions—and buyers to match whatever the offering.

For the flag properties, Daigle has seen a strong interest in Choice Hotel brands, including Quality and Comfort Inns, as well as Marriott, in the Maine area.

Daigle's advice to potential sellers of smaller properties is to plan an exit strategy well enough in advance, at least two years out—banks traditionally look back three years into the financials. The

improved financials not only make the property more attractive to the buyer, it becomes easier to finance through a bank, thus creating a higher probability of completing the transaction.

He has run across owners who believe their property is in good shape because they have been operating it in the current condition, and they can continue to operate for the next season or two without major improvements. "But a buyer has a different perspective," warns Daigle. And the condition has to be factored into the acquisition cost.

Dick Palmer, owner/broker of Hospitality Consultants in Danby, Vt., who primarily focuses on B&Bs and country inns, encounters buyers who are looking for a lifestyle change. Whether buyers are retirees, escaping corporate jobs, or someone who wants to use their cooking or people skills, the buying decision is emotional. "It has to

feel right," says Palmer. Therefore, curb appeal of the property is very important to this type of buyer. "It has to appeal to the senses," he adds.

That is not to say that financial considerations are secondary, in fact, Palmer puts financials at the top of his list. The price has to be a reasonable number. "It has to be bankable, or very close to it," concludes Palmer. In fact, he will not take on a client unless the financials make sense.

Palmer does not see a strong buyer preference for a particular style of smaller property. It comes down to personal preference, with buyers showing interest across the range of styles, including the traditional farmhouse, Victorian, Colonial, etc.

Because curb appeal is so critical for these buyers, Palmer's advice to sellers is to make sure everything is "clean, neat and tidy." He also advises that all

Whether you're buying or selling a Maine hotel or inn... Call us first! 207-773-4222 We have commercial hotels, resorts, inns and smaller properties.

Kennebunkport Waterfront Inn

Serene 3 acre resort-like setting with exquisite rooms/suites in 6 buildings. Indoor/outdoor pools, freestanding restaurant and lounge. \$3,295,000



Ski Resort Hotel

Historic property has been fully restored to its original grandeur and includes restaurant and retail shops. \$698,000



Interior Coastal Maine Inn

Historic inn and resort with beautifully appointed rooms with fireplaces, decks, and spectacular views. Banquet/meeting facilities.



Elegant Historic Inn

Upscale southern Maine inn features suites with fireplaces and heated floors in baths. Unparalleled facilities include pool and tennis. Exceptional property enjoys best clientele/rates. Separate owner's home available.

Hotel Development Site

Spectacular level site in commercial district on Route 302 to Sebago Lakes region. 8+ acre site ideal for hotel, restaurant & retail.

Freeport Inn

50 unit property is well suited for franchising. Enjoys great curb appeal and benefits from repeat tourist/commercial trade. Includes separate owner's home.



Old Orchard Beach Motel

Turnkey 36 unit facility walking distance to beach/attractions. Large pool is popular with families. \$2,195,000



Seaside Inn & Lodging Complex

34 rooms and suites with decks and spectacular views of Penobscot Bay on 3.5 acres. Owner's apt. \$1,550,000



Country Inn and Restaurant

Turnkey village inn with 15 rooms and suites in excellent condition is only 40 minutes to Portland or New Hampshire border. Owner's apt. \$849,000



Daigle Commercial Group, Inc.

178 Middle Street, Portland, Maine 04101
www.daigleproperties.com
207-773-4222

known deficiencies be divulged to the buyer, thereby, avoiding a legal fight following the sale. Palmer recommends a fire safety and health inspection be done.

Buyers frequently like an up-to-date kitchen, according to Palmer. Proximity to a ski area and shopping can be another consideration. But Palmer sees many exceptions for every general rule when it comes to buyers' preferences.

"Buyers are looking for clear and well presented information from the broker," says David M. McElroy, first vice president at CBRE Hotels in Boston. Institutional buyers are generally pursuing specific markets and segments, as well as focusing on strong internal operating numbers. The private and entrepreneurial buyers focus more on "adding value." These buyers, who tend to be operating companies, have confidence that they can enhance the value of the property through a flag change, renovation, marketing, or superior operating performance.

McElroy's advice to a seller is to annually review their assets from an investment point of view. Can they add value to their property by refinancing? He also advises owners to begin preparing one or two years in advance of selling their property. They should be aware of how potential buyers review their expense structure. McElroy says that owners should stay aware of the amenities offered by their local competitors, as well as travel to learn what operators in other parts of the country offer their guests.

The credit crisis has without question damaged the hotel real estate market. Because banks, and more recently securitized commercial mortgages, drive the hotel transaction market, it is a disruptive and unsettled time for buying and selling hotels.

"There is a bit of a stalemate between buyers and sellers right now," says McElroy, although his firm's pipeline remains strong.

According to O'Connell, buyers were willing to look at projections and rates of return a year ago, but now they have

turned toward existing cash flow to make their purchasing decisions. Since the CMBS market seized up as a source of funding, and traditional balance sheet lenders backed away too, the ability to finance hotel acquisitions has disappeared. "I don't know when that is going to change," says O'Connell. "We're being told that lenders will be back in the market after the first of the year."

Palmer did not believe the subprime meltdown and the housing market would affect his business, but as it turns out, the residential market has slowed the smaller hotel market. The buyers of B&Bs and small inns are frequently selling and moving out of their own private residences prior to moving into the lodging property. The extended delay in selling or inability to find a buyer of their residential real estate in

many cases preempts the purchase of the lodging property.

For the seller of mid-sized properties, Daigle admonishes owners to "price the property properly." According to Daigle, sellers have a strong tendency to have an initial price that is too high, allowing for too much negotiating room. But that is a mistake in this market believes Daigle. "Keep it fairly lean," he says. The negotiating window should be close to 5%, he says.

Daigle also tells mid-sized property owners to embrace the growing trend of seller financing. It can be secured behind the first mortgage of the property, or a secondary property. It will become more of a consideration in hotel transactions according to Daigle. "Successful sellers will be the ones who are at least receptive to exploring that possibility," he says. ■



CBRE | Hotels

CB RICHARD ELLIS |

- The widest global network and the deepest local knowledge in hotel real estate services
- Brokerage, equity, debt and advisory services specifically for the lodging industry
- Over 20 lodging offices in North America

Let us know how we can help your business.

33 Arch Street, 28th floor
Boston, MA 02110

Dave McElroy
617.912.7030
dave.mcelroy@cbre-ne.com

Scott Hutchinson
617.912.7089
scott.hutchinson@cbre-ne.com