

Hotel Investment Strategies

How To Get The Best Sales Price

Long-range planning will help position your hotel to attract the most buyers and get the best price.

If you own a hotel today, now is the time to start planning how to get the best sales price when you eventually sell. The most successful selling process usually starts when you actually acquire a hotel, not when you begin to think about selling. The saying, "you make your money on the buy rather than the sell" is often true. Long-range planning will assist in positioning your property to attract the most buyers who are willing to pay the highest price. Here is a checklist of ideas to maximize the sales price of your hotel.

■ **Management Contracts.** If you use a third-party hotel management company to operate your hotel, negotiate a buyout or cancellation provision that will allow you to terminate the contract in the event of a sale. Selling a hotel free and clear of a management contract will enable you to expand the number of potential buyers to include other management companies and brands.

■ **Franchise Agreements.** As with a management contract, you would like to sell the hotel unencumbered by a franchise so the buyer is able to re-brand the operation with another franchise. The most flexible structure would give the buyer an option to either keep the existing franchise or replace it with another brand. Be sure to work out these issues prior to signing a franchise agreement.

■ **Uniform System of Accounts for Hotels.** You must utilize the accounting procedures set forth in the Uniform System of Accounts for Hotel. Buyers want to compare your financial operating results with their own and if you do not keep your books and records in this format their due diligence efforts will increase which could extend the marketing period and reduce your price.

■ **Financing.** If you obtain financing on your hotel make sure it is either pre-payable upon a sale or can be assumed by a new buyer. Don't let a poorly structured mortgage inhibit you from selling your hotel to a highly motivated buyer.

■ **Spruce Up Your Property.** A clean, fresh looking hotel sells better and faster than a tired and worn out property. New paint, carpet, drapes and spreads will generally create a higher price than the expended cost. Curb appeal is also important. Clean the exterior, patch the parking lot and make the property look inviting to the guest and buyer. If you haven't been maintaining the hotel's mechanical equipment and back-of-the-house areas, don't bother trying to catch up. The cost of a new roof or heating system is not

usually justified—a buyer will likely just deduct this from his price. Look to fix obvious maintenance items and make replacements that offer a one-year or less payback.

■ **Market Cycles (Buy Low and Sell High).** Timing is everything. Most hotel markets exhibit occupancy cycles brought about by changes in supply and demand. You should try to acquire hotels during periods when markets are overbuilt, occupancies have hit bottom, financing is not available, owners are facing bankruptcy and few buyers are in the market.

On the upside, look to sell when occupancies are approaching but have not yet reached peak levels, overbuilding is underway, and there are unique buyers willing to pay over-inflated prices such as the Japanese in the 1980s and the hotel REIT's during the 1990s. Another good time to sell is just after you have made a significant change to the property such as adding guestrooms and banquet space. When this occurs, the seller can tout the "future potential" of such an addition without actually demonstrating it will be realized. Sometimes the anticipated future will create more value than the real future.

■ **Special Buyers and Transactions.** If your hotel is suited for another use such as timeshare or condominium conversion, you may want to consider this form of exit strategy. By subdividing your

hotel into smaller pieces or intervals you can often derive a significantly higher total sales price while maintaining management control. While these transactions require specialized expertise to structure and execute, the upside potential will generally justify bringing in consultants for assistance.

■ **Use of a Broker.** An experienced hotel broker will usually generate incremental value far in

excess of any fees or commissions. These highly skilled sales people know who the buyers are, understand how to position the property to achieve the best sales price and create a competition among the buyers that maximizes the offers. The 2% to 8% you will pay the broker is generally money well spent.

■ **Other Considerations.** In addition to these ideas, when you decide to sell your hotel, look into the tax planning issues, keep key employees during the sales process, reinvest your capital, closing costs and adjustments and how you value your accounts receivable?

If you have not implemented all these ideas, now is the time to work on your hotel divestiture strategy so everything is in place when the buyers come to look. ♦

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