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MISCONCEPTIONS ABOUT APPRAISALS

Over the past 15 years, lodging appraisals have become an important component of most mortgage applications and investment analyses. The outdated feasibility study, which never actually determined whether a project was economically justified, has been replaced by the more-complete economic market study and appraisal. This new product combines the market-analysis process used by feasibility firms with the valuation techniques developed by real estate experts specifically for appraising hotels. The end result is a highly detailed study that provides all the information required to make most hotel investment decisions.

The development of this new, improved type of hotel study has been largely the outgrowth of the realization that hotels are more than just businesses—they have a large real estate component. Conversely, hotels are more than just real estate—they have a large business component. With the evolution of hotel consultants cross-trained in both hotel administration and real estate appraising and analysis, the industry has made significant advances in understanding and documenting the dynamics and interrelationships of hotel markets, forecasted operating results, values and economic feasibility. The benefit accruing from these advancements is demonstrated by the greater sophistication of the typical investor.

Although many hotel appraisers have made great strides, some users still harbor misconceptions about how hotel appraisals are developed and what the conclusions actually mean. Let's look at some of these misconceptions.

The first myth is that *hotels can have different market values for buyers and sellers*. There is only one true market value. That is the price at which a willing seller will sell and a willing buyer will buy, neither being under undue pressure. The confusion arises because buyers will generally offer to buy at a level lower than market value and sellers often ask prices above market value. During negotiation these differences usually merge and the final result is the fair market value.

The assessed value used to determine real estate tax may be different from the price paid by a typical buyer because the assessed value of the real property should not contain the value

of the furniture and equipment and the value attributed to the going business or goodwill. In addition, the assessed value is often expressed as a specified percentage of market value.

Another common misconception is *that the forecast of income and expense represents the appraiser's opinion of the hotel's future operating performance*. That is sometimes, but not always, true. The task of the appraiser is to reflect the market, to think like the typical hotel buyer and follow the procedures buyers actually follow in making purchase decisions.

Do you know any hotel buyers who have actually acquired a hotel anticipating that the financial operating performance would be worse under their management than it would have been if the existing management had continued? Successful purchasers of hotels usually temper their purchase analyses with at least a small degree of optimism. Most hotel buyers think they will do better; otherwise, they probably would not have become the highest bidder.

One definition of market value states that market value is "the highest" price that a typical buyer would pay. A good hotel appraiser will factor this purchaser characteristic into the forecast of income and expense in a manner that neither overstates nor understates the outlook of a typical hotel buyer.

Another myth is that *hotel values seldom change radically*. Unlike some forms of real estate that are stabilized by long-term leases, hotels are essentially retail businesses that depend on a constant flow of new tenants to maintain a suitable level of occupancy. Any changes in either the local economy or the competitive supply can significantly affect future cash flow and hotel value. Coupled with the difficulties in operating a successful restaurant and lounge, it's no wonder that many experienced investors shun hotels.

The result of an immediate and drastic drop in operating profit is an equally immediate and drastic drop in value. It is not unheard of for a hotel to suffer a 50- to 70-percent loss in value from factors totally unrelated to the property itself. More often, value erosion can be linked to internal, business-related problems such as poor management, ineffective chain affiliation, lack of timely renovations and other similar factors. Whatever the rea-

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son, the risk associated with a hotel investment is ever-present and owners need to face the possibility that radical changes in value can occur over short periods.

A fourth misconception is that *a hotel must be worth/making lots of money* if (a) it is operated by a large national chain or (b) it is always filled and offers great service.

Hotel appraisers hear these comments a lot. Unfortunately for hotel owners, a number of large national chains are unable to generate sufficient profits to pay normal debt service. Even properties that appear filled all the time and provide a high level of guest service often suffer internally from overstaffing, lack of financial control and generally poor management. Such situations often benefit the guest, but create economic hardship for owners. Sophisticated hotel investors actually enjoy staying at these money-losing properties because they know the owner (and sometimes the lender) is probably subsidizing their visit.

One last myth is that *appraising hotels is a science*—one need only plug the numbers into a computer and print out the value.

Most appraisers would agree that valuing lodging properties is one of the most difficult assignments an appraiser ever encounters. The science portion of a hotel appraisal is relatively simple, but the art involved with the overall valuation process is what separates the pure number crunchers from the top hotel valuation professionals. To appraise a hotel and come up with a supportable estimate of value, the appraiser must consider more than just the numbers that come out of a computer from some sophisticated valuation model. The appraiser must understand the mental evaluation technique used by the buyer when putting together an opening offer. Equally important is the thought process a seller goes through when negotiating the terms of a complex hotel transaction. The art component of an appraisal comes from experience and industry knowledge. It takes full-time involvement in the business to stay current with the trends and understand how buyers and sellers really think and operate. It also helps if the appraiser has at some time actually purchased and sold a hotel—nothing beats firsthand experience. **LH**



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Now, you can take courses with Steve without leaving your living room. He is developing a whole series of online courses covering topics such as “**How to Value a Hotel**”, “**How to Use Hotel Market Analysis & Valuation Software**”

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The World's Only Hotel Valuation Certification

If you are an experienced appraiser looking to specialize in valuing hotels or a new valuer starting your career, you need to obtain a hotel valuation certification. By successfully completing Steve Rushmore’s course and a final project, you will become a **Certified Hotel Appraiser (CHA)** or a **Certified Hotel Valuer (CHV)** the world's only hotel valuation certification. For more information: www.chvsc.org

Learn "How to Value a Hotel" from the creator of the Hotel Valuation Methodology

Hi- I'm Steve Rushmore and I would like to tell you about my online course- "**How to Value a Hotel.**" It teaches how to perform a hotel valuation using my **Modern Hotel Valuation Methodology**. Designed for experienced appraisers looking to specialize in valuing hotels or new valuers starting their careers, this course provides all the knowledge and tools needed to evaluate hotel markets, forecast income and expense, and value all types of hotels. For the final project, students value an actual hotel.

You will be working with the latest version (6.0) of my **Hotel Market Analysis and Valuation Software**-three powerful software models that have become the hotel industry standard for hotel valuations and investment analysis throughout the world. By the end of the course, you will be able to perform your own hotel market analysis and valuation plus many other applications.

The course consists of video lectures, readings, hands-on software case studies, quizzes, and a final project valuing an actual hotel. It should take about 20-35 hours to complete.

Most importantly, I will play a vital role during your learning process- through the wonders of Zoom- you can reach out to me with your questions and I will personally assist. After completing the course, I will also be available to mentor your professional development. Hopefully, this will be the start of a long-term friendship.

Upon successfully completing the course and final project you will receive the Certified Hotel Appraiser (CHA) or a Certified Hotel Valuer (CHV) certification. These certifications recognizing your hotel valuation skills will set you apart from other appraisers and consultants. For more information: www.hotel-learning-online.com

Hotel Valuation Software- For Performing Hotel Market Analyses, Financial Projections and Valuations

Hotel Market Analysis & Valuation Software was developed by Steve Rushmore for his firm- HVS. It was then enhanced by Professor Jan deRoos of the Cornell Hotel School. This software has been the most downloaded product on the Cornell website and is used by thousands of hotel professionals around the world. It consists of three models:

- Hotel Market Analysis and ADR Forecasting Model
- Hotel Revenue and Expense Forecasting Model
- Hotel Mortgage Equity Valuation Model.

This software package also provides answers to a wide range of key hotel investment questions such as How much is my hotel worth? What can I do to maximize value? What is the likely impact of new competition? How much value will a refurbishment add? Is my market strong enough to support adding more hotel rooms? What is the impact of my brand adding another hotel to the market?

If your role includes responsibility for performing hotel valuations and associated financial analyses- you need to include this software in your business toolbox.

Hotel Market Analysis & Valuation Software v. 6.0 is written as Microsoft Excel files (which runs on both Windows and Apple OS X operating systems) and comes with a detailed users' guide and case study. Version 6.0 contains significant enhancements over Version 5.0 which is no longer distributed.

HOTEL VALUATION SOFTWARE



Steve Rushmore is the Founder of HVS and the **Creator of the Hotel Valuation Methodology**. He has authored eight textbooks on hotel valuation and investing, along with over 350 articles on similar topics. In addition, Steve has taught thousands of industry professionals around the world. His online course- "**How to Value a Hotel**" is used by the leading hotel schools and consulting organizations. Contact Steve at steve@steverushmore.com or visit his website www.steverushmore.com

Become a Certified Hotel Appraiser

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Over 250 hotel appraisers around the world have earned this prestigious certification which is perfect for anyone looking to specialize in valuing hotels.



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