



DUE DILIGENCE COMPARISON GUIDE

The best investment decisions come from seeing the full picture. Financial due diligence reveals if the numbers work. Physical due diligence confirms what those numbers may be missing. Use this guide to know what to ask, what to review and what could impact value.

FINANCIAL DUE DILIGENCE <i>Answers: Is it a good investment on paper?</i>	AREA OF FOCUS	PHYSICAL DUE DILIGENCE <i>Answers: What is the property really worth?</i>
INCOME & REVENUE ANALYSIS - Historical performance and trends - Forecasts and market performance - ADR, RevPAR, occupancy & GOP margins - Group vs. transient mix and seasonality	 FINANCIAL PERFORMANCE	PROPERTY CONDITION OVERVIEW - Overall condition of building and systems - Observed wear, deferred maintenance - Alignment with brand standards - Impact on guest experience and operations
EXPENSE REVIEW - Departmental expense analysis - Payroll, utilities, R&M, marketing, insurance - Expense ratios vs. comp set - One-time vs. recurring expenses	 OPERATING EXPENSES	BUILDING SYSTEMS EVALUATION - Roof, HVAC, plumbing, electrical, elevators - Age, condition and remaining useful life - Code compliance and safety systems - Identified deficiencies or failures
CAPITAL STRUCTURE & DEBT - Loan terms, interest rates, amortization - Debt service coverage ratio (DSCR) - Loan-to-value (LTV) and covenants - Refinance or assumption considerations	 CAPITAL & FINANCING	CAPITAL NEEDS ASSESSMENT - Immediate repairs vs. long-term replacements - Estimated costs and timeline of needs - PIP requirements and brand mandates - Impact on holding period and exit strategy
VALUATION & RETURN METRICS - Purchase price justification - IRR, ROI, cap rate, cash-on-cash return - Sensitivity analysis and downside scenarios - Exit strategy and projected value	 VALUATION & RETURNS	VALUE IMPACT OF PHYSICAL FINDINGS - How condition impacts value and operations - Potential downtime or business disruption - Cost to achieve brand compliance - Effect on future cash flow and resale
TAX & LEGAL CONSIDERATIONS - Entity structure and tax implications - PIP vs. capitalized expenses - Tax incentives or abatements - Legal review of contracts and disclosures	 LEGAL & TAX CONSIDERATIONS	SITE & ENVIRONMENTAL REVIEW - Site access, parking, drainage, landscaping - Environmental reports and known issues - Flood zone, wetlands or contamination - Zoning, permits and land use compliance
COMPETITIVE & MARKET ANALYSIS - Market supply/demand and pipeline - Competitive set performance - Market positioning and brand strength - Long-term market outlook	 MARKET & COMPETITION	BRAND & OPERATIONAL ALIGNMENT - Brand standards compliance - Current PIP status and upcoming cycles - Operational flow and back-of-house review - Guest areas, FF&E and OS&E condition

KEY QUESTIONS TO CONSIDER	
FINANCIAL DUE DILIGENCE ✓ Is the historical performance sustainable? ✓ Are projections realistic and achievable? ✓ What assumptions drive the return? ✓ What are the risks to cash flow? ✓ How will financing impact returns? ✓ What is the exit strategy? ✓ Are there hidden liabilities?	PHYSICAL DUE DILIGENCE ✓ What is the true condition of the property? ✓ What systems need repair or replacement? ✓ Are there any code or safety issues? ✓ What are the immediate capital needs? ✓ Is the property meeting brand standards? ✓ What could impact operations or value? ✓ Are there environmental concerns?

RED FLAGS TO WATCH FOR
⚠ Inconsistent financials or unexplained variances ⚠ Deferred maintenance or aging building systems ⚠ Major capital needs not reflected in pricing ⚠ Brand PIP requirements nearing or overdue ⚠ Code violations or safety deficiencies ⚠ Environmental concerns or site limitations ⚠ Overly optimistic projections or assumptions ⚠ Limited upside or challenging market dynamics



THE BOTTOM LINE
Financial due diligence shows you the opportunity. Physical due diligence shows you the reality. Together, they help you make confident, informed investment decisions.



Don't rely on one lens. Use both to uncover risk, confirm value and protect your investment.

