

Answers to Common Questions About Hotel Disposition

Why do individuals and companies sell hotels?

There are many reasons people sell their hotels. Large management and ownership companies may sell to raise cash for expansion, to dispose of non-strategic assets, take advantage of tax-deferred capital gains, or to lessen their exposure to real estate investment risk. Other reasons hotels are sold are due to poor management, insolvency, or financial difficulties unrelated to the hotel business. Individuals and entrepreneurs can sell for a number of reasons, such as winding-up of a partnership, family and personal reasons, or retirement.



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Why would one buy a hotel?

Historically, hotel investment in the US has exceeded the rate of return of many other forms of equity investment. Hotel investment presents owners with the opportunity to achieve considerable operational and residual returns on equity, and hotel ownership allows one to take advantage of the beneficial tax considerations of real estate investment. In addition, many in this exciting and dynamic industry benefit from the psychic income and personal achievement derived from owning and operating hotels. However, hotel investments, like other investments, are not without risks.

Are hotels operating businesses or real estate?

The answer to this often-pondered question is: "a lot of both". Hotels are a hybrid investment. They are, in fact, real estate assets whose value is influenced by real estate and economic fundamentals. But hotels are also day-to-day, management intensive operating businesses whose operating and residual returns are highly dependent on operations and marketing expertise.

How do I know how much my hotel is worth?

The market value of your hotel is dependent upon a number of factors. Essentially, buyers will purchase a hotel at a price based on his or her expectations of the hotel's future economic benefits of ownership. Initially, a hotel can be valued through an income capitalization approach, whereby historical and/or predicted Net Operating Income is discounted by an investor's required rate of return. Recent comparable sales hotels in the same or similar markets (by price per room, income capitalization rate, and multiple of Rooms Revenue) within the same product class can also

be applied, both as an indication of value and as a test for reasonableness.

Other factors that can influence hotel value include: lending market conditions, property capital investment requirements, franchisor related requirements, the local market's ability to accommodate or restrict future competition, terms of the sale, or a buyer's ability to manage the hotel for greater operational income.

A professional hotel broker should be able to analyze your hotel's market and financial performance and be able to give you a written opinion of value. A professional hotel broker, when hired on an exclusive basis, will be able to manage the marketing process (through a professionally written marketing package, assertive solicitation and selling, industry relationships, targeted advertising, etc.) among a motivated population of buyers that will intensify competition and deliver the optimum market price.

Do I need a hotel broker to sell my hotel or should I try to sell it myself?

Hiring a professional hotel broker to market your hotel offers numerous advantages. Hotel brokers specialize on asset transactions in this niche real estate segment. A good, experienced broker has all of the resources (database of active buyers, industry relationships, knowledge of valuation, market knowledge, advertising channels, etc.) readily at his or her disposal. He or she is also the member of a team that includes lenders, franchise representatives, lawyers, appraisers, and inspectors that do the necessary work to guide the buyer and seller through a successful transaction process. More importantly, a good broker acts as a "buffer" in the negotiations between buyers and seller. This role saves the seller time and equity value when negotiating and completing a sale. Owners who elect to sell their own hotels often experience costly expense and erosion of value due to business interruption, management and employee turnover, and damaging relationships to valuable hotel customers.

Should I hire a hotel broker on an exclusive basis or market my hotel as an "open" listing?

Hiring a professional hotel broker on an exclusive basis offers many advantages. Hotels openly listed confront many of the same problems associated with trying to sell your hotel yourself.

What qualities should I look for in a hotel broker?

Many. Remember that the broker you choose works for you and represents your investment to the industry. A hotel broker should

be professional in appearance and demeanor and have a reputation for unquestioned ethics. He or she should have experience and knowledge in hotel operations as well as real estate transactions. A professional broker should have well-established industry relationships, knowledge of your hotel's market, access to research and data, and a track record of successful closings.

A professional broker needs to have the excellent quantitative and financial skills critical to the proper valuation of your hotel. He or she should also have proven strengths in written and verbal communication, because selling and negotiating skills, as well as a professionally written marketing package, are essential components of the hotel marketing process. A good hotel broker should also have membership and marketing strength through a national marketing affiliation, such as [HBI, Hotel Brokers International](#). Comprised of some 100 hotel real estate broker specialists, HBI provides the hospitality industry with the most powerful hotel real estate marketing force, creating greater visibility, backed by more advertising/marketing dollars.

In addition to all of the above, a professional hotel broker should prove that he or she will commit the time and effort needed to achieve your goals. A hotel is not a product to be "put on a shelf." A hotel needs consistent marketing to create buyer competition and achieve its optimized value.

What commission rates are collected for hotel sales?

There is no universal formula and commission rates are not fixed by law. Don't choose a broker on the basis of commission rate alone. An experienced, effective hotel broker can optimize your hotel's value by over 10%, compared to an ineffective broker. This differential can heighten an owner's equity return by up to 30%, depending upon the property's financial leverage. To hire a broker solely on a 1% commission savings simply does not make good business sense.

First, choose the broker. Base that decision upon your confidence in his or her ability to achieve your goals. After making that decision, have a discussion on a mutually agreeable commission structure. Then, be prepared to work as a team to optimize the value of your investment.

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