

Truth and Trends in Hotel/Motel Values

With solid expectations that the hotel industry will be posting record hotel real estate sales in 2007, the knowledgeable brokers at Kansas City, Missouri-based Hotel Brokers International (www.hbihotels.com) anticipate that hotel/motel values will also continue to rise. Growth in occupancy levels, ADR and RevPAR are factors, of course (a trend these professionals believe will continue throughout 2008), but values are still associated with the gross and net operating income (NOI) of each property. “Therefore, each property stands on its own,” says Ronald R. McCord, CHB, president of Milmark Hotel/Motel Investments, LLC, Oconomowoc, Wisconsin. “In the face of existing economic conditions, lodging properties are proving to be better investments than many other forms of improved real estate as they can react more quickly and put into effect necessary rate increases.”

Tony DeGeorge, CHB, president of Greene, Canfield, DeGeorge, Ltd., Clearwater, Florida, notes that relatively sluggish new construction in the hotel market is helping point interested buyers to good-quality existing properties. Here, HBI brokers can assist both active sellers *and* buyers in the process, using the organization’s comprehensive database of hotel comparables to determine each property’s current value. “I think we’re the only brokerage companies that actually have this type of data available to us,” he says, “and we track all sales – not just our own.” Because an HBI broker knows the market well, and has recent and historical information readily available, he or she can be an exceptional resource in guiding sellers on how to position their property in today’s market.

Using HBI’s *TransActions Recap* statistics, as well as 30 years of experience, HBI broker Steve Blue, CHB, president of Las Cruces, New Mexico-based Scoggin Blue LLC, is able to offer clients a written opinion of value. These statistics value existing properties three ways: based on a multiple of annual historical room revenues, capitalization of net operating incomes (NOI) and average price per room. These opinions are generally accurate when compared to actual sale price upon closing.

Capitalization of NOI is usually the most important factor buyers rely on. Expenses and revenues can vary significantly among operators and NOI should be strictly defined when using “cap” rates.

McCord concurs with this assessment, but offers the following caveat: “It’s easier to sell a property that has been kept up-to-date, even if the figures aren’t the greatest. We have seen a substantial increase in room revenues in spite of the sharp increase in utility and labor costs. Profits [can and] have increased, and – with skillful management – they should continue to do so.”