

Real Estate Journal

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Selling solutions in a changing hospitality market: Part 2



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Not only are these banks offering financing, but the rates are quite encouraging. Fixed interest terms still tend to be negotiable and vary according to the strength of the buyer and of the transaction.

Brokers are also knowledgeable about the use of wrap-around mortgages to structure transactions, as it is a popular option for financing in tough markets. A form of seller financing, a wrap-around mortgage occurs when a purchaser makes payments on the previous owners' debt as well as an additional loan that amounts to the purchase price. The buyer will make payments to the seller, who will then make payments on their original mortgage. This can be highly beneficial to the seller, who can charge an additional percentage on the buyers' payments to the original mortgage. Additionally, an article in the Washington Post suggests that a seller may insist that the purchaser cannot prepay the loan without a penalty. Buyers, however, may object to such a condition, because it inhibits their right to refinance or even sell the property. Hospitality real estate professionals will commonly suggest this process for a buyer who cannot acquire a mortgage, does not have the funds to pay closing costs, or wishes to create an installment sale for the seller.

Another favorable strategy in hospitality real estate transactions is the use of the SBA 504; the Small Business Administration's (SBA) loan program designed to assist small and mid-size businesses in obtaining property. According to the SBA, a business qualifies for this program if it does not have a tangible net worth in excess of \$7.5 million and does not have an average net income in excess of \$2.5 million after taxes for the preceding two years. Loans are not offered to businesses engaged in speculation or investment in rental

real estate.

SBA 504 utilizes a traditional bank mortgage on 50% of the cost and the SBA takes a second mortgage for 40%. The buyer must then supply the remaining 10% into the purchase costs. These costs include land price, construction costs, equipment and fixtures, soft costs, and closing costs. SBA loans are generally locked in at a favorable rate for a term of 20 years. An experienced broker will ensure that SBA 504 loans are utilized successfully and to the benefit and security of the buyer.

Lease/purchase agreements are also excellent alternatives in both soft and active real estate markets. Many hotel and other business entities are established in that a corporation or LLC might own the real estate and a separate entity may own the operating business. This would allow the owner to sell the operating business separately and then lease the real estate, most often under a purchase agreement to allow for the sale of the real estate to occur sometime in the future. There are numerous benefits to both the buyer and seller under this scenario.

Lastly, brokers are experts at using allocation of sales for structuring a transaction. An experienced broker would assist in suggesting allocations in order to reduce or increase the following: land/building; furniture, fixtures, and assets; good will, which can create favorable tax treatment for both sides of the transaction.

There are many motivated and qualified hotel buyers in today's real estate market. As long as the hotel price makes economic sense, hospitality real estate will continue to provide incredibly viable investment opportunities. However, while current financing alternatives have recently been diluted closing a transaction will often call for creative financing solutions. Employing an experienced hospitality broker, can help clarify your solutions to ensure a successful transaction.

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