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There are always sellers and buyers in every economy; transfer of hospitality props. continues

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The current economic and financial environment is tumultuous to say the least. To know where the economy is headed and understand its affects on hospitality acquisitions and dispositions is difficult, as it can change on an hourly basis. To this end, it is appropriate to review what steps must be taken to meet the current needs of clients and customers in the hospitality real estate industry.

Even with a challenging economic climate, there are certain market segments that are still active for hospitality real estate transactions, and properties are continuing to be sold as they would in any market, good or bad. Today's financing struggles have a huge impact on hotel buyers, as lenders have stated: "if you want $10 million and will personally guarantee the note - no problem. If you want $100 million - forget it." Knowledgeable buyers know what to look for when purchasing, and based on recent transactions and market trends, more and more buyers are showing concern for a clearly stated exit strategy, and they look for properties with high barriers to entry, and factor new development, and on-going capital improvement programs into the proposed value of the property.

There is currently a great discussion taking place on where capitalization rates are headed, and it appears that there is no way but up, which will be good for the hospitality industry in the long run. Wason Associates currently has two mid-market limited service hotels under agreement that are selling at 11% cap rates. This is more indicative of previous years when a 10% to 12% cap rate was the norm and when a 20% + cash on cash return was more reasonable for the considerable amount of risk involved.

Another very important factor in the current New England market is the aging of area hotels. A common expression in the industry today is that "We are not overbuilt, we are under demolished." This is truly appropriate: the two-story exterior corridor property has become functionally obsolete, although some can survive longer depending on the market area and specific location. The two-story interior corridor hotels of the 1970s and early 80s will also soon be facing functional obsolescence as they often require extensive maintenance and high operating costs. The good news is that many of these properties have the best locations and are well-suited for redevelopment. When purchasing an older property that may be nearing the end of its economic life, it is important to consider potential redevelopment opportunities.

Many older properties sit in prime locations where the value of the site is greater than the value of the hotel based upon the revenue the hotel generates. Redeveloping the property may be a terrific exit strategy. Where an old, functionally obsolete hotel resides, new retail shops, restaurant PAD sights, large box stores, or even auto dealerships would pull in much higher revenue.

Another factor buyer's are considering when searching for hospitality real estate is whether an area has a high barrier to entry. Well built up areas with little or no available land for new hotel construction, or a city or town with tough zoning regulations, can protect the potential buyer. This eliminates the surprise of potential competition. Buyers want to purchase a hotel in an area where it is less likely that other competing hotels will be constructed, areas such as Kennebunkport, Maine; Wolfeboro, N.H.; Manchester, Vermont; or Newport, R.I. are good examples.

If a potential buyer finds a property that satisfies all of their needs - distinguishing an exit strategy, barriers to entry, and acceptable capitalization rate - financing then becomes the next major step. Aside from the current economic turmoil, community, local, and regional banks are still very interested in providing financing. There are numerous financing options available, including SBA 504 loans, wrap-around mortgages, seller-offered installment sales, or a combination of all three. By structuring transactions that can work for both the seller and the buyer, brokers are doing everything necessary to find financing and introduce some creatively structured combination of financing that will get the transaction closed.

An SBA 504 loan is the Small Business Administration's (SBA) loan program which is designed to assist small and mid-size businesses in obtaining real estate. In tougher lending environments, as is the case in our current market, lenders are more likely to favor SBA 504 loans if available. These loans offer greater protection for the lender and usually have lower fixed rates and a longer payback term for the buyer.

A recent property transacted using the SBA's 504 was the sale of the Best Western Granite Inn. This 104 room hotel, located in Nashua, New Hampshire, was sold to Karen Enterprises Inc., an established New Hampshire Hotel Co. Major renovations had recently been completed to the rooms, lobby, and porte-cochere of the hotel. Coincidentally, the transaction encountered complications due to a fire that partially destroyed 50 of the guest rooms just 3 days after the execution of a purchase agreement. This unique incident provoked an extensive negotiation process while utilizing the SBA 504.

The use of wrap-around mortgages to structure transactions has always been a popular tactic 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 of the property, less any cash down payment. This can be highly beneficial to the seller, who can charge an additional percentage on the buyers' payments to the original mortgage, and derive the benefits of an installment sale.

Transfers of hospitality properties will continue to take place in any type of market. Even with today's fluctuating economy, buyers for limited service, mid and economy market hotels still outnumber the properties for sale, and therefore the demand still holds up pricing. The bottom line: keep on keepin' on, because buyers will always need to put their money into something, and they are becoming increasingly more aware that small business, including hotel ownership, is a key driving source of today's economy.