

“Why hasn’t my hotel sold?” The reasons are many that a place hasn’t sold

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My first venture, after receiving an MBA, was to build a chain of restaurant/pubs on Cape Cod. Now years later, after projects closing in on \$500 million, my companies, with 20 brokers is handling 3 hotels on New York's waterfront for \$84 million, a real estate portfolio of \$160 million, and a couple of beautiful bed and breakfasts locally.

As most hotel intermediaries know, inventory is scarce. Subsequently properties are commanding above average prices.

Meanwhile the question that is often heard from sellers with properties on the market is “Why hasn’t my hotel sold?”

For the most part this question is asked not only of hotel and motel specialists but as well of other commercial brokers.

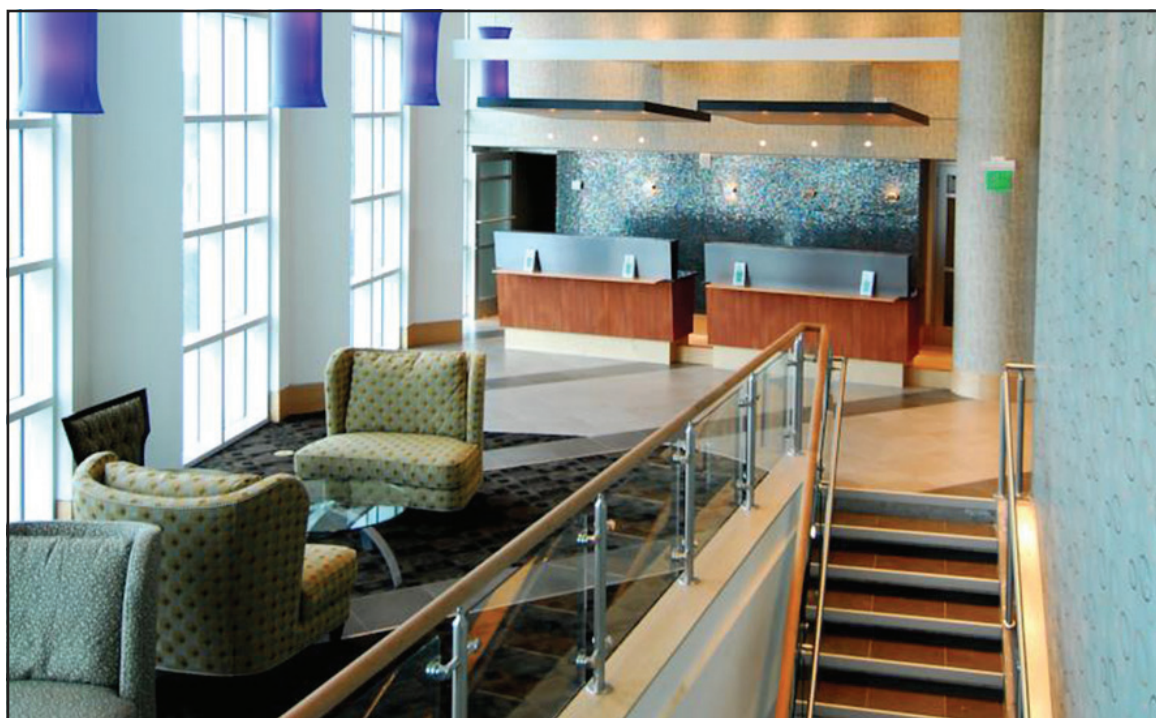
The scenario is that an owner seeks out what he feels is a com-

petent professional to help him exit a business and property that has provided him with the luxuries of success...or the pains of failure. In either case, if we take on the listing, we're promising the seller, and therefore becoming morally obligated, to do everything in our power to extricate the owner from his business with the best price and most favorable terms.

However the buyer's needs also come into play. The buyer's concern, as opposed to those of the seller, is to find the minimum price that the seller will accept with terms that are most favorable to him. What a dilemma for a conscientious broker.

For over 37 years, I've had to straddle this invisible line...satisfying the needs of the seller while appreciating the position of the buyer. The advantage of being a hospitality specialist is that we know the market value of every listing. In the same way that a doctor looks at your x-ray and determines that the spot on your lung is pneumonia and not cancer, a hotel broker determines that your business is worth \$1 million, not the \$1.5 million that you're looking for.

Many times we're called into a listing after the listing has been exhausted by a commercial broker. The question always asked is “Why hasn't my listing sold?” The factors for not selling are very basic, first of which is that you haven't had fully qualified potential buyers. It's easy to get the phone to ring, but deals are made with financially qualified,



seasoned buyers with sufficient working and reserve capital, not just the down payment.

Further, the reasons are many that a place hasn't sold:

1. Overpriced - Many times the seller tells the broker what to sell it for and the broker accepts it because he wants the listing and doesn't know what it's present market value is.

2. Financially Unqualified - The reality is that the buyer or his consortium think they'll qualify for traditional financing but many times are rejected. The ability to generate “creative” financing is critical in bringing a deal to fruition. In some case a level of “seller-financing” may be appropriate.

3. Cleanliness is Next to Godliness? - Would you invite people to your home if there were dirty dishes in the sink? So many sellers don't see what a buyer sees. It's not always about “the numbers.” A seasoned hotel specialist is your most important asset in bringing your business and property to a satisfactory closing.

4. Deferred Maintenance is a Deal-Killer - If a seller doesn't repair a poorly functioning air conditioner, replace broken tiles around the pool, or fill small potholes in the parking area, the buyer is going to assume that the seller is losing mon-

ey and can't afford to do the repairs.

5. Location, location, location - Ever wonder why successful companies pay exorbitant prices to be in close proximity to a new lifestyle center, the Boston's Seaport District, a resort or waterfront area, or along a major thoroughfare? It's the job of the hotel broker to encourage the seller to appreciate its market value and help the buyer to accept that same market value.

6. Competition - One of the first challenges for a hotel specialist is to determine the level of competition present, who the major competitors are, and then find a buyer who has a competitive advantage strong enough to bring the business to a higher level. If a broker doesn't determine a realistic market value in the beginning, the business and property typically won't sell in a timely manner.

The definition of hospitality is “the friendly and generous reception and entertainment of guests, visitors, or strangers...relating to or denoting the business of housing or entertaining visitors.”

The Hotel Exchange and The National Restaurant Exchange, and its associated companies, have been leading industry intermediaries for 37 years. The hospitality industry is constantly evolving in ways that even most professionals don't see. The strong, successful brands keep growing, sometimes by rolling up their competition. The weak will survive, many times for long periods, but eventually succumb to the inevitable. One of the mantras in grad school was, “If you're not growing, your business is dying. Your competition is always at your heels nipping away at your business.”

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About this month's authors

For 37 years, Dennis Serpone, president of The Hotel Exchange and the National Restaurant Exchange, has been a valuable resource to the hospitality market.