



# INNsideISSUES

This issue compliments of

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Hotel Brokers International (HBI), founded in 1959, is the industry's oldest hotel real estate sales and consulting organization. HBI annually accounts for the largest market share of hotel real estate sales in the United States alone.

In addition to being the leader in hotel real estate brokerage, HBI offers the Certified Hotel Broker designation program, Hotel Investor's Marketplace and TransActions, the organization's hotel real estate sales comparables service.

HBI is a member of the American Hotel & Lodging Association (AH&LA), Asian American Hotel Owners Association (AAHOA) and FIABCI-International Real Estate Federation.

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## INFORMATION REQUEST FORM

The fast-changing hotel real estate market is creating significant opportunities. The challenge is to discover and mine those opportunities. As the leading hotel real estate brokerage organization, representatives of Hotel Brokers International offer the expertise to assist you in achieving your hotel investment goals. For information about many ways HBI can assist your efforts, fill out the form below and mail or fax it to the address on the cover of this newsletter.

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# INSIDE ISSUES

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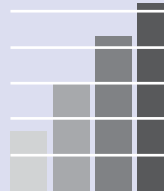
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New details  
on SBA loans  
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HBI has 100%  
increase in sales



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Appealing your  
hotel's tax  
assessment  
TIM WILMATH



## HBI looks at the U.S. Hotel Market

World events, economy,  
impact major hotel  
transactions

**W**orld events, the economy, and major hotel transactions (hotels that transfer for \$10 million or greater) move in concert. When there is minimal global unrest and the economy is good, major hotel transactions are robust. Conversely, when the world experiences large-scale conflict, the economy falters and major hotel sales slow down. Since September 11, 2001, the U.S. has been on a roller coaster with regard to global happenings, both social and economic. Even with the Gross Domestic Product (GDP) growing by more than eight percent in the third quarter of 2003, the related improvement in the market for hotel transactions was quickly mitigated in the first quarter of 2004 by the deleterious effects of growing violence in Iraq and the specter of ongoing worldwide terror attacks. This one-two punch significantly hindered the positive effects of the exceptional economic growth shown in the fall of 2003.

While the daily papers bring news of violence in the Middle East and elsewhere, there is some good economic news. First, the employment market is improving. More than 346,000 jobs were created in April, following an increase of 353,000 jobs in March. May employment growth was unexpectedly high at 248,000 jobs. As a result almost one million jobs have been added in the United States in the last three months and many of these jobs have occurred in the hotel industry. Further, construction spending is on the upswing, inflation is remaining low, and the GDP was above four percent in both the fourth quarter of 2003 and the first quarter of 2004.

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Market commentaries  
from  
HBI Brokers

**F**or this *Inside Issues*, several HBI brokers discuss their specific domestic markets and the economic recovery process as they are experiencing it. "New York City has been driving the Northeast's recovery," said Joseph McCann, CHB, president, Optimum Hotel Brokerage in Fairfield, Connecticut. "With the city hosting the Republican National Convention and the weak dollar abroad, an increase in visitors to the city is expected to drive up the summer's ADR in the range of 12 percent."

McCann continued, "In Boston occupancy and ADR have shown signs of recovery, but the city continues to lag behind other regional markets. Optimistic buyers continue to bid up the asking prices for non-performing full-service assets. Most of this optimism appears to be related to the presence of the Democratic National Convention, which is hoped to boost ADR and occupancy in the short term. Elsewhere in the Northeast, due to their proximity to growing regional airports, tertiary markets such as Providence, Rhode Island and Manchester, New Hampshire remain strong."

"From Washington, DC to Boston, numerous buyers are currently vying for minimal inventory. Along the East Coast the hotel markets within the major cities are strong," said Charles Fritsch, V, CHB, president, MBA Hotel Brokers, a Glenwood, Maryland-based brokerage firm.

"South of the District of Columbia and into the Carolinas, hotel occupancy is showing signs of improvement. Property values in most major markets are up and this is anticipated to continue as long as interest rates

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## World events, economy, impact major hotel transactions

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Gas prices are increasing and while there may be a number of families that will plan vacations closer to home this summer, hotel occupancy is expected to increase. Almost all hotel segments are recording better results than during the same comparable periods last year. Occupancy and room rates seem buoyed in almost every market and hotel sales prices are on the rise again. Even hotels that have not completely returned to stabilization are selling for amounts that would not have been possible in the recent past.

Nonetheless, economic improvement does have a downside. With the economy improving, inflation being somewhat contained, and job growth expanding, the Federal Open Market Committee (FOMC) will, in all likelihood, increase interest rates some time in early summer. This will remove the benefits of low interest rates that the hotel industry has enjoyed over the last several years. Since 2001, lower interest rates—and the resulting lower debt-service payments—have allowed many hotel owners to weather the storm of occupancy and room rate declines. Additionally, because debt-service payments remained low, hotel buyers were able to pay increasing prices even in instances when a hotel had not yet achieved stabilization. Hotel owners paying higher interest rates are going to have to rely on improving occupancy and ADR results to pay for the increased cost of debt.

An excellent indicator on how the larger hotels are doing is to review the major transactions on a quarterly basis. In the fourth quarter of 2003, when world events appeared to have calmed down and the U.S. economy was enjoying significant growth, hotel markets witnessed the largest number of major transactions in any quarter since 2001. Further, these major deals were transferring at the banner-year prices last seen in 1999 and 2000.

Major Transactions by Quarter				
Quarter	2001	2002	2003	2004
1st	34	18	25	17
2nd	39	29	32	
3rd	19	20	39	
4th	20	32	44	
Total	112	90	140	

During the first quarter of 2004, as anti-American sentiment gained traction in Iraq and terrorist actions continued to globalize, the number of major transactions declined to a level last seen in the immediate aftermath of September 11, 2001.

While world events and major transactions ebb and flow

## Selection of recent HBI-brokered sales

<b>Hampton Inn</b>	Wilmington, NC	118 units
<b>Wells Inn</b>	Sisterville, WV	32 units
<b>Days Inn</b>	Chester, PA	110 units
<b>Super 8</b>	Somerville, TX	49 units
<b>Red Roof Inn</b>	Memphis, TN	109 units
<b>Best Western</b>	Arlington, TX	122 units
<b>Lakeview Inn</b>	Haltom City, TX	60 units
<b>Comfort Inn</b>	Shelbyville, IN	57 units
<b>Holiday Inn Express</b>	Osceola, AR	47 units
<b>Scotwood Motel</b>	Litchfield, MN	35 units
<b>Country Inn &amp; Suites</b>	Detroit Lakes, MN	46 units
<b>Days Inn</b>	San Francisco, CA	73 units
<b>Travelodge</b>	San Francisco, CA	83 units
<b>Amerihost Inn</b>	Upper Sandusky, OH	60 units
<b>Howard Johnson Express</b>	Albuquerque, NM	85 units
<b>Comfort Inn</b>	Albuquerque, NM	122 units
<b>Windmill Inn</b>	Hillsboro, TX	92 units
<b>Best Western</b>	Ft. Stockton, TX	112 units
<b>Sands Motel</b>	Boscobel, WI	32 units
<b>Holiday Inn Sunspree Resort</b>	Asheville, NC	272 units
<b>Ramada Inn</b>	New Carrollton, MD	237 units
<b>Baymont Inn &amp; Suites</b>	Erlonger, KY	110 units
<b>Best Western</b>	Evansville, IN	63 units
<b>Fredericksburg Inn &amp; Suites</b>	Fredericksburg, TX	102 units
<b>Erie View Motel</b>	Lorain, OH	51 units
<b>Days Inn</b>	Grove City, OH	120 units
<b>Super 8</b>	Bernalillo, NM	66 units
<b>Casa de Suenos</b>	Albuquerque, NM	15 units
<b>Best Western</b>	Eagan, MN	108 units
<b>Days Inn</b>	Addison, TX	63 units
<b>Lincoln Palms Motel</b>	Anaheim, CA	80 units
<b>Days Inn</b>	Winchester, VA	66 units
<b>Rambler Inn</b>	Thurmont, MD	30 units

together, this is not entirely true for the mid-market (hotels that transfer below \$10 million) properties and individually owned/operated hotels (those sales below \$3 million). This is demonstrated by the stellar year that Hotel Brokers International is experiencing. April hotel sales for HBI (in total dollars) exceeded the budgeted amount by 180 percent. Based upon discussions with HBI brokers there appears to be, in many locations, far more buyers than sellers for these two market segments. Nonetheless, as 2004 heads into the summer perhaps only one thing is certain; the continued global geopolitical uncertainty and our tenuous domestic economic recovery will be the twin drummers that the market for hotel transactions will march to.

Market commentaries from HBI Brokers *Continued from page 1*

remain low,” continued Fritsch. “Fortunately now that the SBA is back in the market, financing is more readily available,” Fritsch concluded.

According to Bob Hunter, CHB, president, Hunter Realty Associates, Inc. of Atlanta, Georgia, the mid-market hotel real estate transactions in the South Atlantic are rapidly increasing in number. Hunter comments, “Sellers are looking to clean up their portfolios by divesting themselves of their older, non-strategic assets. Buyers want to take advantage of the growing economy and the attractive interest rates.”

“Hotel transactions are very brisk, especially in the Carolinas,” concurs Bill Smith, in Hunter Realty’s Raleigh office. He believes this is because the bid/asked spread is narrowing and therefore more deals are closing.

“On the opportunity side,” said Teague Hunter, CHB, vice president, Hunter Realty, “we are receiving a wave of hotels coming to the market from lenders. After several years of working with hotel owners, lenders are now foreclosing and putting the REO hotels up for sale.” Hunter continued, “New construction, that represents new competition, is always a concern for hotel owners. The costs of new construction are climbing rapidly, particularly the cost of steel and concrete. For some, this has tipped the investment analyses in favor of buying existing hotels and renovating.”

“The prime hotel purchasing time in Florida is during the late fall and winter months. This year’s winter hotel buying season was good and the summer is expected to be solid,” said Tony DeGeorge, CHB, president, Greene Canfield DeGeorge Ltd., a Clearwater, Florida-based brokerage firm servicing the South Atlantic region (predominately Florida and southern Georgia).

DeGeorge also described a trend in Florida that has been slowly evolving for several decades but has quickened in the last five years. Developers have been buying older owner-operated hotels located along the Florida beaches, demolishing the improvements, and constructing mid-to high-rise condominiums. This has triggered a number of conditions. First, owner operators—realizing that developers will pay a premium for larger parcels—have been banding together to sell their hotels with neighboring properties, creating larger, more desirable sites for developers. Second, the condominium development has caused the population to swell in a number of beach communities. This has caused the Federal Emergency Management Agency (FEMA) to review emergency evacuation plans and in some cases determine that more bridges are required. Finally, because condominiums do not pay the bed tax that is required at hotels, several Florida counties have witnessed sharp declines in advertising tax revenue. This has resulted in some state officials demanding that the condominiums be reconsidered as “condo/hotels” in order to restore the counties’ revenue stream.

“Hotels that are performing well, if marketed properly, can command a premium.”

“Because of all this movement in the Florida hotel and condo markets, hotels located just off of the beach but not slated for redevelopment are experiencing increased occupancy. Buyers who wish to continue to own and operate hotels are purchasing these hotels located in easy walking or driving distance to the beach,” said DeGeorge.

Scott Brash and Lili Gewargis, president and sales associate, respectively, for Brash Realty Co. Inc. of Northbrook, Illinois, noted that within their region the recovery started first in the secondary and tertiary cities. Hotel markets in the larger cities were improving, but this improvement is moving at a slower pace. “Due to a tremendous amount of overbuilding in Chicago, the city’s recovery has been slower than those experienced in other Midwest cities,” said Brash.

“Overall property values are gradually increasing. The two- to three-year gap between buyer and seller expectations is beginning to close. As hotels fight to service local business in the area, occupancies will increase, but ADR is not anticipated to increase at the same pace,” Gewargis summarized.

“Values have not been increasing lately in this region,” said Brandt Niehaus, CHB, president of Huff Niehaus & Associates Inc., a Louisville, Kentucky-based brokerage firm that services Tennessee, Kentucky, Ohio, Indiana and Southern Illinois. “Owners are holding out for the higher asking prices from six to 12 months ago. Revenue and profit numbers are improving and an ever increasing number of buyers are looking to purchase,” continued Niehaus. Cincinnati and Youngstown in Ohio, along with Evansville, Indiana, are markets with emergent strength. Hotel markets in Indianapolis, Louisville, northern Kentucky, Cleveland, Columbus, and Nashville have all stabilized and are showing signs of increasing occupancy and rate growth.

“Financing is still difficult,” said Niehaus, “because lenders are underwriting based on a hotel’s trailing 12-month financials,

Market commentaries from HBI Brokers *Continued from page 3*

which often are not that strong.” He went on to estimate that the number of hotel transactions in the markets he services will exceed the number recorded in 2003 by as much as 50 percent or more.

“Hotel markets throughout Texas are generally improving. Most of the recent listings have been in secondary and tertiary locations,” said Heather Hamilton, CHB, president of Spectrum Hotel Group Inc., a brokerage firm based in Austin, Texas. She went on to explain that there are two primary reasons that hotel sale activity has been away from major cities and highways. First, hotel owners in major Texas cities worked hard to retain ownership during the recession; consequently, they are disinclined to sell at this time, preferring to hold their assets for greater returns later. Second, many of the hotels along the large interstates have been largely unaffected by the events of the last three years.

“Hotels that are performing well, if marketed properly, can command a premium. We have seen some West Texas hotels selling in excess of three times the hotel’s gross rooms revenue, an unheard of multiplier in recent years,” Hamilton said. With revenues and values firming, sellers who have been waiting in the wings will need to seriously consider putting properties on the market.

Dick Lopez, CHB, president of Lodging Property Brokers Inc., a Napa, California-based brokerage firm, works predominately in Northern California. His market encompasses the city of San Francisco as well as the destination areas of the Monterey Peninsula (and its surroundings), Sonoma and Mendocino Counties, and Napa Valley. He has observed that these destinations, situated within comfortable driving distances from large population centers, are doing very well.

“While these markets are viable, Northern Californians are increasingly concerned about rising gas prices that may keep many summer travelers closer to home. Unique to California is the exceptional high costs of energy as well as workman’s compensation, both expensive pitfalls for owners. However, government and business leaders are aware of the seriousness of this and are working to reduce these expenses to more manageable levels,” Lopez said.

“Despite the escalating operating costs, Northern California hotel prices have increased. This is predominately due to reduced mortgage interest rates that are causing capitalization rates to be lower than historically recorded. There are concerns that if mortgage rates increase and operating expenses cannot be contained, the market will adjust to accommodate these financial dynamics and this will likely impact hotel pricing,” Lopez concluded. Nonetheless, buyers continue to remain optimistic about the California market.

## HBI Marketplace events provide ideal venue for sellers and buyers

By L.C. “Chuck” Nester, CHB

Hotel Investor’s Marketplace provides a rare marketing venue for brokers, lenders, franchisers, and industry suppliers to communicate and network with investors actively seeking to purchase hotels. This unique marketing forum, available exclusively to HBI brokers, event sponsors, and invited guests, brings together these experts in one location and allows investors time savings in making purchasing decisions, and essentially reduces the time a listing is on the market.

Developed in joint support with **Hotel & Motel Management**, the HBI Marketplace events hosted earlier this year in Los Angeles and Chicago drew an array of local, regional, and national investors. In an informal one-on-one atmosphere investors previewed top-notch, recently listed hotels totaling in excess of \$200 million. La Quinta Inns, Inc., served as the events’ premier sponsor. Additional sponsors included Carlson Hotels Worldwide, Chicago Title Insurance Company, Choice Hotels International, and GE Franchise Finance.

HBI events, such as the Hotel Investor’s Marketplace, allow HBI brokers to utilize their unique events and network to find investment opportunities for their clients, not only in local markets, but around the world. The next Hotel Investor’s Marketplace is scheduled for October 13, 2004, in Washington, DC. Contact an HBI broker to feature your property in this unique investment event.

For attendance or sponsorship information, contact HBI at 800.821.5191.



## Small Business Administration news for savvy investors

By Kyle Stevenson

**T**he Small Business Administration (SBA) has two important lending programs for hotel investors: the 7(a) loan program and the 504 loan program. Both have been critical sources of financing for small businesses in general and for hotel investors in particular. Through these programs, the SBA can help borrowers get more financing than banks are often willing to provide. Further, SBA loans are sometimes the only source of funding available.

In late December 2003, administrators at the SBA realized that they were running out of money for the 7(a) loan program. The SBA had not requested enough money from Congress to fund the program, and on January 6, 2004, the SBA decided to stop approving all 7(a) loans. Many applicants were shut out and several loans were cancelled. Two weeks later the government reopened the program, but 7(a) loans were capped at \$750,000 and lenders were prohibited from combining a 7(a) loan with another companion loan, also referred to as a piggyback loan. Needless to say, precious few hotel acquisitions can transact with only \$750,000 of financing in place. Fortunately, Congress and the SBA finally agreed to reopen the entire program on April 2.

The new program for 7(a) loans has many important changes, with the goal being to make the program entirely self-funding. Achieving this goal would prevent future interruptions in the program because of demand spikes or delays related to the government funding process. Highlights of the changes are as follows:

**Guaranteed amount increased to \$1.5 million**—Now SBA lenders can receive a 75 percent guarantee on a loan of up to \$2.0 million (the current and previous maximum amount for 7(a) loans).

**SBA 7(a) loan fees increased**—Fees charged to the borrower have increased to help make the program self-sufficient. The following fees are paid directly to the SBA and are based on the actual guarantee amount:

For Guarantee Amounts Between	SBA Fees
\$150,000 to \$700,000	3.00%
\$700,000 to \$1 million	3.50%
\$1 million to \$1.5 million	3.75%

The guarantee amount can be calculated by multiplying the gross loan amount by 75 percent and then applying the fees proportionally.

**Lenders can make companion loans**—The SBA will again allow lenders to make a second loan up to the amount of the SBA 7(a) loan. The piggyback loan cannot be larger than the SBA 7(a) loan, so this effectively limits the SBA 7(a) program to a maximum of \$4 million (a \$2 million 7(a) loan combined with a \$2 million piggyback loan). However, at present, if the same lender makes both loans the lender cannot use preferred processing.

**Piggyback lenders must pay the SBA a fee**—Again, in an effort to make the 7(a) loan program self-funding, piggyback lenders will now pay a fee of 0.70% of the piggyback loan amount to the government. This amount cannot be passed on to the borrower.

As a result of these alterations, the program has gotten bigger and a little more expensive for both the borrower and the lender.



Kyle Stevenson

**Small Business Administration news for savvy investors** *Continued from page 5*

While the 504 program did not have any interruptions, the 504 program’s administration did change slightly late last year. Companies that originate and service the 504 loan—non-profits known as CDCs (Certified Development Companies)—can now compete with each other regardless of location. In the past, some CDCs had exclusive territories within a specific state, but now there will be open competition, hopefully resulting in better service and response for borrowers.

Having a full 7(a) loan program is important and helps to keep capital flowing for hotel loans. The increase in the guarantee amount to \$1.5 million will do at least two things for investors. First, a lender can now make a 7(a) loan of \$2 million on a preferred basis with a full 75 percent guarantee. Second, borrowers who had maxed out their SBA eligibility with a previous loan using a \$1 million guarantee can now qualify for an additional \$500,000 SBA guarantee. A creative lender can use this increase to provide up to an additional \$2 million in new financing for an existing SBA borrower. If the lender uses a 50 percent guarantee on a \$1 million 7(a) loan (\$500,000 in guarantee) and combines it with a \$1 million piggyback loan, the borrower can use up to \$2 million to buy or build another property.

It is clear the SBA is a changing source of capital for hotels. Through the changes of the past few months, the program has expanded and become more stable. Staying abreast of these changes and taking advantage of the opportunities they afford is crucial for growing business and staying ahead of the competition.

*Kyle Stevenson is executive vice president for Business Loan Express. He may be reached at 202.841.4546 or [kstevenson@blx.net](mailto:kstevenson@blx.net).*

## HBI has a stellar 2004

Hotel Brokers International has had a stellar 2004 thus far. We have had a strong presence and increased visibility as sponsors and exhibitors at some of the premier hotel industry events including Americas Lodging Investment Summit, Hotel Investment Conference, AAHOA National Convention and Trade Show, and FIABCI–World Congress.

Improvement and stabilization within the hotel industry have been the mantra chanted at these events. This incantation is being reflected by the performance of HBI’s highly qualified broker network, as we have realized a 100 percent increase in the number of HBI sales closed in the first four months of 2004, when compared to the same time period last year. Taking a detailed look at some of the changes in the market, HBI sales are showing a reduction in capitalization rates by 10 to 15 basis points as well as a much tighter capitalization rate range. All of these are indicative of improving hotel operating margins and an overall improvement in the market.

As we continue with this exceptional year, HBI brokers look forward to seeing you at the following conferences and trade shows:

**The Lodging Conference**  
September 28–October 1, 2004 | Phoenix, AZ

**Best Western International Convention  
and Trade Show**  
October 17–21, 2004 | Charlotte, NC

**InterContinental Hotels Group  
Trade Show**  
October 20–22, 2004 | Chicago, IL

Contact an HBI broker to learn how you can benefit from this improving hotel market.

**Ronald R. McCord, CHB**  
President | Hotel Brokers International

## Successfully appealing hotel property tax assessments

By Tim Wilmath, MAI

**P**roperty taxes represent a significant portion of a hotel's operating expenses. A careful review of a given property's assessment may indicate that a reduction may be warranted.

In most jurisdictions, the assessment is calculated using the income approach, a capitalization process that converts an estimate of a single year's anticipated net operating income (NOI) into a present value. This process used by the assessor is applied using a mass appraisal technique where income models for each hotel type (e.g., limited service, full service, etc.) are created and applied to many properties at once. Often the income and expense statements in these models are obtained from local surveys and industry reports. Essentially, the assessor is trying to estimate a property's stabilized NOI. Although the assessor can make an educated estimate using survey data, the actual income is the best indicator of value.

To determine if a property is over-assessed, compare the actual NOI to the figure utilized in the assessment. If there is a significant difference it may result in a reduction on appeal. However, there are a few caveats. Before challenging an assessment, be prepared to explain why the property's NOI differed from the one that the assessor derived. The most compelling evidence would show that the actual NOI has lagged behind the assessor's estimate over a period of several years. Many assessors are reluctant to grant a reduction based on a one-year decline in NOI. Providing three years of operating statements will help the assessor see the big picture. In addition, most jurisdictions assign one staff appraiser to assess all hotel properties. This individual is most likely the best one to speak with directly when the numbers justify the conversation.

If a meeting with the assessor does not result in a reduction, a formal appeal hearing is another option. However, quite often in such proceedings, the local assessor will enjoy a jurisdictional presumption of correctness. This assumes that the assessor's value is correct and the property owner must provide compelling proof to have the assessment lowered. To challenge the assessed value, it will have to be shown both that the alternate valuation is more accurate, as well as, the assessor overlooked something that impacts value. For hotels, the most common technique is to show that the assessor did not correctly consider the actual income the hotel generates. It goes without saying that this argument needs to be supported with considerable documentation. As mentioned earlier, a three-year history of income and expense can be very persuasive.

Self-representation may not be the best course of action when navigating the choppy waters of a formal tax appeal hearing. The cost of hiring an attorney, appraiser, or qualified hotel broker who specializes in appealing property tax assessments can be cost effective, as well as afford significant peace of mind to the hotel owner. Additionally, even when a tax specialist is retained, the owner's presence in the courtroom can send a message that this is a subject of deep concern. To that end, being in the courtroom also allows the owner to answer questions as they may arise.

The secret to successfully appealing a property tax assessment is preparation and good communication with the local assessor. Providing the assessor with three years of operating history is the first step. Explaining why actual income varies from published surveys will help the assessor better understand why the hotel's assessment may deserve adjustment. Finally, hiring a professional and knowledgeable tax representative can be a big benefit throughout the process.

Tim Wilmath, MAI, is the director of valuation process for the Hillsborough County Property Appraiser's office in Tampa, Florida. Mr. Wilmath can be reached at 813.272.6100.



Tim Wilmath, MAI

