

## Hotel Investment Strategies

## Making The Ideal Hotel Investment

I have been helping people buy and sell hotels for the past 30 years and also have acquired a few for my own account. Hotels are complicated, high-risk investments that require specialized operational expertise—or you will run the risk of quickly losing a substantial amount of capital. Over the years, I have developed a set of criteria that I use for making hotel investments and would like to share this information with you.

■ **Never buy a hotel unless it has at least an eight-month season.** In a seasonal market, it is best that the in-season months are consecutive. Shorter seasons may work only if there is a sufficient average rate premium during the high season. Examples of markets that enjoy long seasons include London, Paris, Hawaii and Lake Tahoe, Nevada.

■ **Select markets that enjoy visitation from several market segments.** Avoid hotels that depend on just one market segment such as commercial, group and leisure for the bulk of their demand. This provides relief from a downturn in one travel sector. For example, Boston's hotel occupancy decline caused by the shrinkage of technology demand has been cushioned somewhat by an increase in leisure travel to the area.

■ **Never be dependent on just one demand generator.** What happens when an airport closes, a theme park goes out of business or a company is acquired and its headquarters are relocated? These are examples of hotel markets that suffered due to the demise of a primary generator of hotel demand.

■ **Never short-cut your due diligence investigation.** In the United States we call it, "Buyer Beware." You need to thoroughly understand the property's condition and exactly what you are buying. An engineering study is essential. I have seen what appeared to be habitable hotels rendered totally unusable because of underground environment pollution, interior mold infestation, structural damage from termites and rodents and properties that do not meet the current building codes. A new hotel in Wilmington, Delaware, was not permitted to open because the developer added extra guestroom floors and failed to comply with the local building codes.

■ **Look for hotel markets with high barriers to entry.** Overbuilding is a problem throughout the world. Markets such as Dallas, Atlanta, Salt Lake City and Phoenix,

where it is relatively easy to acquire hotel zoned land and build a lodging facility, tend to become overbuilt during periods where financing is readily available. In cities such as London, Hong Kong and Beverly Hills, California, the barriers to entry are high.

■ **Investigate your management company.** If you plan on using a hotel management company be sure you fully understand its capabilities. That means obtaining financial statements for similar hotels it operates and determine whether revenues are maximized and expenses are in line. If it refuses to share operating performance, find another management company.

■ **Match the brand with the product.** Hilton is excellent at attracting meetings and conventions, while Days Inn operates better in the leisure market. When branding a hotel you need to understand which brands attract which type of travelers and select the brand that will generate the most business for your hotel. Be careful of brands that still are trying to develop a unique identity. With all the brand consolidation you need to investigate possible adverse impact issues where you may be directly competing against other brands within the same chain.

■ **Remember you will need to sell your hotel someday.** When you plan to buy a hotel you also need to plan for the eventual sale. To have the greatest flexibility to find the right buyer, try to structure your acquisition so you can easily terminate the management contract, the franchise agreement, assign or prepay the mortgage, buy out your partners and minimize your tax exposure.

Following these criteria for making a hotel investment may not always guarantee success, but they do illustrate some of the potential pitfalls that I have experienced over the years. Good luck and may your next hotel investment be successful. ♦



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