

Roomers

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This Issue's Featured Topics...

How to Buy a Bank-Owned Hotel or Note

By *Kenneth Olipra, vice president of Greene, Canfield, DeGeorge, Ltd., a Clearwater, Florida-based hotel brokerage firm, and also a member of Hotel Brokers International*



Today a buyer can often buy a hotel at a substantial discount. In 2010 brokers will have more bank-owned hotels and bank notes for sale. The process can be complicated, but a good hotel broker can help buyers through the process. Many brokers have been down this road in previous cycles. There are things a buyer can do to “stand out” as a serious buyer. A buyer who is prepared in advance (with the information banks are looking for) has a huge advantage over other buyers.

The most important things to remember if a buyer wants to take advantage of these bank deals is he must be (1) able to close fast; (2) have cash; and (3) willing to pay the premium broker fee, resulting in a net offer to the bank.

A buyer may wonder how he proves to a bank or seller that he is the buyer they should choose. Buyers should make sure their partners and their own personal financial statements are ready and available, showing net worth and how much liquid cash (cash that is ready and waiting to be wired) is available to purchase the asset.

They should be prepared to sign a buyer's premium (broker's) fee agreement much like the ones used in an auction. Some buyers wonder why brokers cannot tell them anything about the bank hotel without having to sign a confidentiality agreement. The banks require it. Banks have potential liability and in some cases, can be sued if information gets out to the general public. They make the broker sign a confidentiality agreement and then require the brokers to have all their clients do the same. If the buyer wants in the game, this is a must!

A buyer may ask: “Why should I provide my financial information now? Can't I wait until I find a deal I like, make an offer and then provide the information?” Tony DeGeorge, president of HBI and president of Greene, Canfield, DeGeorge, Ltd. of Clearwater, Florida, says, “The banks are overwhelmed. The REO/Special Asset Officers' phones are ringing off the hook. They cannot possibly talk to everyone, so through the brokers they only want to talk to people who they know will get the job done. If a buyer impedes the process by not having the information up front, another buyer, who did, will get the deal. Banks have passed up higher offers, if they know they have a qualified buyer who can close fast.” The successful experienced hotel operator with ready cash and proof that it is ready cash is the buyer that gets the bank's attention.

Banks will sometimes finance the properties that they are selling. “It depends on the bank's situation. If the bank is in good shape and doesn't need the cash, they may consider carrying some of the financing. They still want a substantial down payment. They also want to know they are lending to a person who has extensive successful experience operating a hotel. They also want to know the borrower has extra working capital to operate the hotel through the turnaround period until the economy improves,” says Brandt Niehaus, president of Huff, Niehaus & Associates, Inc.

If a buyer is forming a partnership to acquire one of these hotel assets, then form the partnership now. Get all the financial information from all the partners and get their commitment now. Buyers will not have time to do it when presented with a deal. Time is of the essence. Those who are prepared will have the highest probability of being the successful buyer. Buyers should talk with their hotel broker should they have any questions.

January / February 2010

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