



INNsideISSUES

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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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HBI brokers anticipate active year for hotel market

Spring is in the air, and signs that things are beginning to blossom for the hotel real estate market are shooting up everywhere. Brokers participating in an informal Hotel Brokers International survey agree that 2004 promises to bring needed growth to the industry.

While the final quarter of 2003 wobbled to an end with nationwide fluctuations in listing and closing action, this year is off to a strong start as the first quarter boasts almost across-the-board increases in hotel real estate activity.

"We are getting a lot of activity now, a lot more than last quarter of last year," said Craig Hoover, Hoover Lodging Realty, Denver. "People wanted to hang on a little longer to see if the economy would come up. It has come up, and it's turning around."

The apparent economic recovery is fueling increases in hotel revenue and building the confidence of eager buyers who spent the last two years sidelined by a poor economy. This new-found optimism, combined with the scarcity of attractive hotels on the market, have motivated buyers to move toward asking prices they wouldn't have considered the same time last year.

"There always will be a gap between seller and buyer, but we're seeing it get much closer and more negotiable," said Chuck Nester, CHB, Brown Hotel Group, Westlake Village, Calif. "It used to be that if the offer wasn't what the buyer wanted, he would go away. That's not happening now because there is less inventory, and activity is extremely strong. Buyers don't want to get into a bidding war, but they know that they aren't the only interested party looking at the product. It's truly a sellers' market."

Jeff Westgor, CHB, Westgor & Associates, said that buyers also were being enticed by low interest rates.

"Owners realize that interest rates won't stay low forever, and lower rates mean buyers can afford to pay more," said Westgor, whose Minneapolis-based firm has seen between a 20 percent and 30 percent increase in sales over the same time last year.

Concurrently, sellers are learning to be more realistic and keep their asking prices in line with market performance, brokers said.

This high-demand climate allows both sellers and lenders to be more selective about the buyers they choose. In many cases, a buyer must prove to the seller that he or she has the experience to get a loan and the ability to get a specific loan, such as a Small Business Association 504 Program loan. Lenders often require buyers to demonstrate previous hotel work or management experience; possess ample capital that doesn't stretch the limits of their portfolios; and, in many cases, have successful hotel ownership history.

"Relationships are important to lenders today," said Bob Hunter, CHB, Hunter Realty Associates, Atlanta. "If you've borrowed four times and are trying to borrow a fifth, that relationship can be very helpful. For first-time buyers, it can be very tough."

Still, financing is available, and lenders are eager to work with qualified investors.

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“I think the underwriting criteria are more stringent and equity requirements are more aggressive, but, overall, a proven operator should be able to get some extremely good financing relative to historical interest rates,” Westgor said. “I think there definitely is a demand for quality deals from savvy lenders.”

HBI brokers said that the market managed to avoid the storm of foreclosures that had been predicted to strike the hotel industry in 2002 and 2003. Many brokers credit lenders, such as the SBA, who were willing to be patient with the hoteliers and the slow economy. However, lender patience is beginning to wear thin with properties that show no improvement despite the economic upturn.

“Lenders have been nice and cooperative, but now they are going to a new strategy,” Hunter said. “In many cases, they believe that if your property didn’t improve when the economy improved, it’s not going to.”

Although many hoteliers have been determined to hold onto their properties until values rise again, some are ready to rid themselves and their portfolios of under-performing operations.

“We’re seeing a lot of owners saying, ‘I’ve waited long enough, and I need to move the product now,’” Nester said.

Sellers tend to be corporations and multi-unit owners divesting of non-strategic assets, or independent parties eager to abandon the high-stakes game of hotel real estate. Their success in selling depends greatly on the type and location of the asset.

Newer mid- to upper-market limited-service properties remain popular with many investors, particularly owner-operators who don’t have the experience to run a full-service hotel. Urban properties also are in high demand. Real Estate Investment Trusts and C-Corp buyers are interested in full-service properties. All buyer segments show preference for successful franchise names such as Holiday Inn Express, La Quinta Inns, Marriott Hotels and Resorts, and Hilton.

Brokers are having no trouble finding eager buyers for attractive properties priced at a discount. Building and rebuilding also represent popular options in many areas because the construction phase allows more time for the market to recover.

“It will be 18 months before you are ready to open your doors,” Nester said. “And when you do, the market will be back. You will open the doors when the occupancy starts to rise.”

Most HBI brokers agreed that the U.S. election-year climate would have little direct impact on the hotel real estate industry, although traveling campaigners would give slight boosts to select hotels in select cities. Stock market performance remains the strongest influence on the lodging industry, and brokers are optimistic that as the market continues to creep upward the business traveler will return.

Nester said that these new, highly anticipated market conditions could seem deceptively simple and warned sellers against trying to negotiate the real estate market on their own.

“It’s going to be a movement year,” he said. “It’s going to be a shake-up year. There will be a lot of activity, and the brokerage community will lead the marketplace. The owner- sellers on their own aren’t going to fare as well because our brokers understand the market and know what’s out there.”

A complete listing of HBI brokers can be found at www.hotelbrokersinternational.com.

HBI to release 2004 transactions summary, analysis in May

One of HBI’s most popular resources, the annual TransActions Recap, will be available for purchase in May. As the country’s foremost authority on hotel sales data, the 60-plus-page hotel reference guide provides comprehensive summaries, expert valuations and in-depth analysis of the hotel sales industry.

The much anticipated 2004 edition includes:

- Summaries of all HBI-member transactions from 1999 to 2003
- National and regional statistics
- Summaries of additional 2003 hotel transactions
- 2003 transaction analysis
- Hotel values by brand, location and segment
- Index of hospitality lenders
- Insightful articles on hospitality financing based on 2004 lender survey

To order TransActions Recap 2004 for \$115, e-mail transactions@hotelbrokersinternational.com, contact the HBI executive office at +1.816.505.4315, or visit hotelbrokersinternational.com. Price includes shipping and handling.

Sellers' window of opportunity is open By Toni Viens

The economy, monetary policy and interest rates all impact hotel property values. During the last six months the economy has been rocketing forward. While hotel sales are achieving 1999 and 2000 banner-year prices, occupancies, RevPARs and net operating incomes are lagging behind hotel value increases. As long as interest rates remain unchanged, buyers, through historically low mortgage rates, can carry newly purchased hotels at nominal rates of return while waiting for restoration of bottom-line incomes.

Experts anticipate the economy to expand throughout 2004. The job market, while still weak, is seeing increasing employment numbers. Corporate profits remain strong, encouraging more companies to increase staff. Business productivity is anticipated to be robust as corporations continue to identify ways to utilize technology and other efficiencies. Inflation is expected to stay below 2 percent. Gross Domestic Product is expected to hover above 4 percent and 5 percent for the remainder of the year.

As the economy continues to improve, the probability of rising interest rates will solidify. Increasing job growth and stable inflation, some of the Federal Reserve Board's main conditions to change monetary policy, are anticipated to be in place by midsummer. At that time, it is projected that the Fed gradually will start to increase interest rates, which will directly impact property values.

To understand how interest and mortgage rates impact property values, consider the following scenario based on a hypothetical hotel generating \$100,000 of annual net operating income. The debt service payment will be calculated for two different interest rates: one assuming an interest rate of 6.5 percent, and the other at an interest rate of 7.5 percent.

Two overall rates (ratio of income to value for a specific year), will be calculated for each interest rate through the "Band of Investments." This technique to develop an overall rate allows for recognition of the owner's cash-on-cash return (equity dividend rate) and the mortgage constant (mortgage interest rate plus amortization).

The following investment and loan requirements are given: the owner's first-year cash-on-cash return, or equity dividend rate, is assumed at 12 percent; loan-to-value ratio is assumed at 70 percent, thus requiring an equity contribution of 30 percent; mortgage amortization period is assumed at 25 years.

The next step is to calculate the two mortgage constants:

Development of Mortgage Constants Based On Mortgage Interest Rates of 6.5 Percent and 7.5 Percent with a 25-Year Amortization Schedule

| Assumptions | 1st Scenario | 2nd Scenario |
|------------------------|--------------|--------------|
| Equity Contribution | 30% | 30% |
| Equity Dividend Rate | 12% | 12% |
| Mortgage Contribution | 70% | 70% |
| Amortization Schedule | 25 years | 25 years |
| Mortgage Interest Rate | 6.50% | 7.50% |
| Mortgage Constant | 8.10% | 8.87% |

Next, an overall rate for each of the two financial scenarios is calculated:

Development of Overall Rate Scenario One at 6.5% Mortgage Interest Rate

| | | |
|-----------------------|-----------------|-------|
| Equity Contribution | .3000 x .1200 = | .0360 |
| Mortgage Contribution | .7000 x .0812 = | .0567 |
| Overall Rate | | .0927 |

CONTINUED FROM PAGE 3

Development of Overall Rate Scenario Two at 7.5% Mortgage Interest Rate

| | | |
|-----------------------|-----------------|-------|
| Equity Contribution | .3000 x .1200 = | .0360 |
| Mortgage Contribution | .7000 x .0887 = | .0621 |
| Overall Rate | | .0981 |

Finally, the net operating income is converted into value by dividing the net operating income by the overall rate.

Impact of Interest Mortgage Rates on Property Values

| | Net Operating Income ÷ Overall Rate | Property Value | Property Value Rounded |
|---------------------|-------------------------------------|----------------|------------------------|
| 1st Scenario | \$100,000 ÷ .0927 = | \$1,078,748 | \$1,079,000 |
| 2nd Scenario | \$100,000 ÷ .0981 = | \$1,019,367 | \$1,019,000 |

Because the hotel owner must pay an increased debt service, due to a 1 percent increase in the mortgage rate, the property value for the hypothetical hotel dropped \$60,000, or about 5.56 percent.

In summary, while interest rates remain low, buyers still can afford to purchase hotels at current prices even though net operating incomes have yet to fully recover. However, this window of opportunity may close as mortgage rates and resultant debt service payments increase, which is expected to happen by late summer or early fall.

Toni Viens, MAI, serves as the director of research for HVS International and can be reached at 407.566.1846 or tviens@hvsinternational.com

Hotel Brokers International to showcase properties in Los Angeles and Chicago

This spring, HBI will hold two exclusive Hotel Investor’s Marketplace events to showcase properties from its new online database.

The first Marketplace will be held on March 30 in Los Angeles. The second will be held on May 4 in Chicago. Each will highlight more than 20 exceptional properties represented by HBI member brokers. The properties are located throughout the events’ surrounding regions and abroad.

HBI presents a handful of Marketplaces each year in cities across the country. Drawing hotel investors, brokers and suppliers, these one-day events are widely considered prime opportunities to network with industry colleagues and conduct transactions.

“The Marketplaces provide investors with ideal settings to learn about new investment opportunities, work with experienced brokers and connect with other hotel owners and industry experts,” said Ron McCord, CHB, HBI president.

La Quinta Inns will be the premier sponsor. Other sponsors include Carlson Hospitality Worldwide, Chicago Title Insurance Company and Choice Hotels International.

Brash Realty Co., Northbrook, Ill., will host the Chicago Marketplace. Sponsors include La Quinta Inns, Carlson Hospitality Worldwide, Choice Hotels International and GE Franchise Finance.

Contact an HBI broker for an exclusive invitation to attend these private events. For more information, call HBI’s executive office at +1.816.505.4315, or e-mail info@hotelbrokers-international.com.



HBI bestows sales achievement awards on illustrious members

HBI honored its top-performing brokers, sales associates and brokerage offices of 2003 at an awards ceremony on Saturday, Jan. 31, in San Antonio, Texas. The ceremony was part of the association's 2004 Annual Meeting, held at the St. Anthony Hotel.

"These awards serve as ways to inspire the recipients and the recipients' peers to greater performance levels," said Ron McCord, CHB, HBI president. "They also help drive the recipients, their peers and the entire association toward accomplishing their overall goals."

Chuck Nester, CHB, Brown Hotel Group, received HBI's highest honor—Broker of the Year. Nester, who last year closed more than 10 transactions, earned the honor based on outstanding sales volume and participation in HBI programs and activities. He also received the Largest Single Hotel Sale Award for the \$10.2 million sale of a 200-unit Best Western Green Tree in Victorville, Calif.

Chuck LaPorte, Brown Hotel Group, received the association's most prestigious award for a sales associate—Salesperson of the Year—for his involvement in six hotel sales.

Brandt Niehaus, CHB, Huff Niehaus & Associates, presented HBI's Noah L. Canfield Distinguished Service Award to Tony DeGeorge, CHB, Greene Canfield DeGeorge, who has played an active role in the association for more than 10 years.

"As an HBI member and leader, Tony has dedicated countless hours toward helping the association execute its vision and reach its goals," Niehaus said. "He always has HBI's best interests at heart and truly is committed to serving the general membership and fulfilling its wants and needs."

HBI presented its New Associate of the Year Award to Matthew Hamilton, Spectrum Hotel Group. Boasting 11 listings and participating in three hotel sales in 2003, he was the top-performing sales associate to have completed his first year with the association. Additionally, Hamilton received HBI's Unique Deal of the Year Award for the distinctive sale of a 38-unit Lakeview Inn in Brownwood, Texas, which, among other complicating factors, was struck by a tornado just before the 10-month transaction was completed.

HBI also honored the most successful brokers in each region. Joe McCann, CHB, Optimum Hotel Brokerage, topped the New England/ Mid-Atlantic Region. Tony DeGeorge topped the South Atlantic Region. Scott Brash, Brash Realty Co., topped the North Central Region. Heather Hamilton, CHB, Spectrum Hotel Group, topped the South Central Region. Steve Blue, CHB, Scoggin Blue, topped the Mountain/Pacific Region.

HBI presented Regional Salesperson Awards to the most successful sales associates. Vinit Mody, MBA Hotel Brokers, won for the South Atlantic Region. Jennifer Church, CHB, Milmark Hotel/Motel Investments, won for the North Central Region. Matthew Hamilton won for the South Central Region. Greer Lee, CHB, Scoggin Blue, won for the Mountain/Pacific Region.

Two brokerage offices and two sales associates received Record Number of Transactions Awards, which recognize the achievement of personal bests in transaction volume. Winners included Donohoe Real Estate Services; Scoggin Blue; Kurt Mockenhaupt, Donohoe Real Estate Services; and William Moyer, Donohoe Real Estate Services.

Record Dollar Volume Awards for personal bests went to Chuck LaPorte; Michael Mason, MBA Hotel Brokers; and Vinit Mody.

Record Number of Transactions and Dollar Volume Awards for combined personal bests went to Milmark Hotel/ Motel Investments; Western Hotel Motel Brokers; Jennifer Church; Robert Flake, Western Hotel Motel Brokers; and Lili Gewargis, Brash Realty Co.

The award for the Largest Portfolio Sale was given to Fred Ferrarini, CHB, and Steve Ferrarini, CHB, ProCom Lodging Brokers, for a portfolio sale that consisted of the Sea Coast Lodge in San Simeon, Calif., and the Sands Pebble Inn in Cambria, Calif.

Brash Realty Co. received the Most Co-Op Sales Award, which recognizes the HBI brokerage office involved in the most cooperative sales with fellow HBI offices.



Brandt Niehaus, CHB, (left) presents the Noah L. Canfield Distinguished Service Award to Tony DeGeorge, CHB.



Chuck Nester, CHB, (left) accepts the Broker of the Year Award presented by Ron McCord, CHB, HBI president.

Choosing a franchise: It all comes back to ROI

By David Goldberg

In good economic times and bad, in wartime and peacetime, during peak travel periods and travel-market downturns, one issue is first and foremost for hotel owners – profitability.

Hoteliers looking to affiliate with a brand may weigh all of the factors – marketing muscle, reservations delivery, the extent of services provided – which differentiate one franchise company from another. But at the end of the day, it all comes back to a single issue: What is the potential return on investment represented by a particular brand?

When the focus is on ROI, the differentiating factors between franchise companies are easily measured. Independent hoteliers choosing to align with a franchisor, operators looking to switch flags, or new product developers are advised to consider the following:

Brand recognition. The power of a well-established, well-defined brand name cannot be underestimated. Solid brand names drive occupancy and rate and, therefore, RevPAR, the primary profitability measurement in the industry.

Marketing. Effective marketing that creates awareness about and builds a compelling case for brand names is critical to franchisee success. Before aligning with a franchise, hoteliers should consider how much is spent on marketing and how innovatively, consistently and effectively brands are marketed.

Reservations delivery. Breakthrough marketing yields breakthrough reservations delivery or the ability of a franchisor to deliver actual business to its franchisees. Related is the ability of a franchisor to navigate for its franchisees the myriad online third-party booking sites, global distribution systems and other Internet distribution channels. Franchisors should do this in a way that maximizes revenue potential while reducing intermediary costs and the hassles associated with the ever-changing Internet landscape.

Sales. Corporate business, government accounts, AAA and travel agents all represent significant sources of potential revenue. Hoteliers should measure franchisors in terms of their aggression in courting these customers as well as their abilities to leverage size and scale to maximum advantage for franchisees.

Services. However national or international a franchise company may be, for its franchisees the business is primarily local. Hoteliers should measure the degree of one-on-one customized service each franchisee receives. Is there a franchise services professional with expert knowledge of the industry and each market he or she serves readily available to assist with operations, marketing and technology issues? Is there adequate training for new franchisees? Is there hands-on assistance in all aspects of opening a hotel, from pre-opening sales to staffing to technological readiness? These services are designed to enhance ROI from the starting gate and are solid measurements of one franchisor's effectiveness over its competitors.

Technology. Technology has changed the face of lodging in the 21st century and not solely as it relates to the Internet. Hoteliers should have high expectations for their franchisors' reservations and property management systems. Specifically, systems should be built to equip franchisees with superior operations technology and yield management capabilities that have a proven, demonstrative ability to increase RevPAR.

Costs. Franchisors are able to leverage size and scale to a degree that individual properties cannot. This can and should be done in the areas of prototype development, conversion costs and purchasing.

David Goldberg is vice president of strategy and business development for Choice Hotels. He may be reached at david_goldberg@choicehotels.com.



David Goldberg

Selection of recent HBI-brokered sales

| | | | | | |
|------------------------------------|------------------|-----------|--------------------------|------------------|-----------|
| Holiday Inn Express | Artesia, NM | 40 units | Hampton Inn | Sarasota, FL | 97 units |
| Super 8 | Lordsburg, NM | 41 units | La Quinta Inn | Birmingham, AL | 106 units |
| El Patio Motor Inn | San Angelo, TX | 76 units | Hampton Inn | Willimington, NC | 118 units |
| Motel Centralia | Centralia, IL | 57 units | Best Value Inn | Austin, TX | 292 units |
| Ramada Limited & Suites | Clearwater, FL | 44 units | Ramada Inn | Freeport, IL | 90 units |
| Best Western | Palm Springs, CA | 72 units | Quality Inn | Federal Way, WA | 65 units |
| Motel 6 | Clarkston, WA | 85 units | Econo Lodge | Lester, PA | 134 units |
| Comfort Suites | Tulare, CA | 50 units | Quality Inn | Fayetteville, NC | 100 units |
| Days Inn | Modesto, CA | 101 units | Days Inn | Chester, PA | 110 units |
| Days Inn | Bardstown, KY | 101 units | Wells Inn | Sistersville, WV | 32 units |
| Hometown Inn | Seymour, IN | 111 units | Hilton Garden Inn | Lexington, KY | 100 units |
| Comfort Inn | Eau Claire, WI | 56 units | Cross Country Inn | Findlay, OH | 120 units |
| Econo Lodge | Augusta, GA | 168 units | Best Western | Scottsburg, IN | 96 units |

HBI celebrates 45 years



Ron McCord, CHB, HBI president, (left) and Wayne Westgor, founding member of HBI, cut into a celebratory cake in honor of HBI's 45th anniversary. HBI commemorated its 45th year in January during the 2004 Annual Meeting in San Antonio, Texas.

HBI elects new board of directors



HBI installed its new board of directors in January.

Front row left to right: Teague Hunter, CHB; Ron McCord, CHB; Dick Lopez, CHB.

Back row left to right: Steve Blue, CHB; Tony DeGeorge, CHB; Matthew Hamilton; Brandt Niehaus, CHB; Charlie Fritsch, CHB; Darin Brock, CHB; Jeff Westgor, CHB; Arvind Patel, CHB.

