

Lodging Outlook



HVS HOSPITALITY
VALUATION
INTERNATIONAL SERVICES



SMITH TRAVEL RESEARCH

How To Get The Best Sales Price

By: Stephen Rushmore, MAI, CHA - HVS International - New York

Long-range planning will help position your hotel to attract the most buyers and get the best price.

If you own a hotel today, now is the time to start planning how to get the best sales price when you eventually sell. The most successful selling process usually starts when you actually acquire a hotel, not when you begin to think about selling. The saying, “you make your money on the buy rather than the sell” is often true. Long-range planning will assist in positioning your property to attract the most buyers who are willing to pay the highest price. Here is a checklist of ideas to maximize the sales price of your hotel.

MANAGEMENT CONTRACTS. If you use a third-party hotel management company to operate your hotel, negotiate a buyout or cancellation provision that will allow you to terminate the contract in the event of a sale. Selling a hotel free and clear of a management contract will enable you to expand the number of potential buyers to include other management companies and brands.

FRANCHISE AGREEMENTS. As with a management contract, you would like to sell the hotel unencumbered by a franchise so the buyer is able to re-brand the operation with another franchise. The most flexible structure would give the buyer an option to

either keep the existing franchise or replace it with another brand. Be sure to work out these issues prior to signing a franchise agreement.

UNIFORM SYSTEM OF ACCOUNTS FOR HOTELS. You must utilize the accounting procedures set forth in the Uniform System of Accounts for Hotel. Buyers want to compare your financial operating results with their own and if you do not keep your books and records in this format their due diligence efforts will increase which could extend the marketing period and reduce your price.

FINANCING. If you obtain financing on your hotel make sure it is either pre-payable upon a sale or can be assumed by a new buyer. Don't let a poorly structured mortgage inhibit you from selling your hotel to a highly motivated buyer.

SPRUCE UP YOUR PROPERTY. A clean, fresh looking hotel sells better and faster than a tired and worn out property. New paint, carpet, drapes and spreads will generally create a higher price than the expended cost. Curb appeal is also important. Clean the exterior, patch the parking lot and make the property look inviting to the guest and buyer. If you haven't been maintaining the hotel's mechanical equipment and back-of-the-house areas, don't bother trying to catch up. The cost of a new roof or heating

system is not usually justified—a buyer will likely just deduct this from his price. Look to fix obvious maintenance items and make replacements that offer a one-year or less payback.

MARKET CYCLES (Buy Low and Sell High). Timing is everything. Most hotel markets exhibit occupancy cycles brought about by changes in supply and demand. You should try to acquire hotels during periods when markets are overbuilt, occupancies have hit bottom, financing is not available, owners are facing bankruptcy and few buyers are in the market.

On the upside, look to sell when occupancies are approaching but have not yet reached peak levels, overbuilding is underway, and there are unique buyers willing to pay over-inflated prices such as the Japanese in the 1980s and the hotel REIT's during the 1990s. Another good time to sell is just after you have made a significant change to the property such as adding guestrooms and banquet space. When this occurs, the seller can tout the “future potential” of such an addition without actually demonstrating it will be realized. Sometimes the anticipated future will create more value than the real future.

(continued on back page)



CANADIAN LODGING OUTLOOK
HVS INTERNATIONAL - CANADA

July 2003	Number of Rooms	Occupancy Rate (%)		Average Room Rates (\$)		RevPAR (\$)		Room Supply % change	Room Demand % change
		2003	2002	2003	2002	2003	2002		
Nova Scotia Area	1,693	80.4%	84.2%	\$94.59	\$98.84	\$76.05	\$83.22	0.8%	-3.8%
Halifax, NS	2,077	84.9%	87.3%	\$132.32	\$127.13	\$112.34	\$110.98	4.1%	1.3%
Montreal, QC	14,492	68.4%	77.4%	\$145.48	\$143.83	\$99.51	\$111.32	-0.3%	-11.8%
Quebec City, QC	3,790	69.2%	85.4%	\$150.64	\$174.45	\$104.24	\$148.98	1.0%	-18.1%
Quebec Area	3,417	66.5%	73.1%	\$102.97	\$102.00	\$68.48	\$74.56	-0.1%	-9.0%
Toronto Downtown	11,309	57.5%	74.9%	\$142.26	\$178.92	\$81.80	\$134.01	-4.5%	-26.6%
Toronto North/East	6,853	55.5%	71.3%	\$107.07	\$119.45	\$59.42	\$85.17	1.6%	-20.9%
Toronto Airport/West	6,541	57.1%	70.2%	\$102.50	\$112.82	\$58.53	\$79.20	-1.1%	-19.6%
Ottawa, ON	8,269	62.2%	63.3%	\$125.74	\$125.45	\$78.21	\$79.41	0.0%	-1.9%
Ontario East	3,980	66.3%	75.1%	\$102.61	\$103.86	\$68.03	\$78.00	0.2%	-11.5%
Ontario Southwest	8,433	62.7%	65.5%	\$96.68	\$98.84	\$60.62	\$64.74	1.3%	-3.1%
Ontario North	5,404	70.1%	74.5%	\$117.59	\$124.31	\$82.43	\$92.61	0.3%	-5.6%
Niagara Falls, ON	7,715	74.3%	88.2%	\$145.59	\$169.98	\$108.17	\$149.92	4.6%	-11.9%
Ontario Central	8,087	62.3%	72.1%	\$99.12	\$106.46	\$61.75	\$76.76	1.7%	-12.2%
Winnipeg, MB	3,760	65.4%	60.9%	\$91.08	\$91.40	\$59.57	\$55.66	0.0%	7.5%
Regina/Saskatoon, SK	3,801	52.9%	61.4%	\$81.24	\$79.03	\$42.98	\$48.52	-0.9%	-14.7%
Calgary, AB	5,657	76.2%	76.3%	\$134.80	\$136.60	\$102.72	\$104.23	0.0%	-0.1%
Edmonton, AB	5,493	64.7%	79.2%	\$100.51	\$95.86	\$65.03	\$75.92	1.1%	-17.5%
Alberta Area	8,340	69.3%	70.8%	\$102.28	\$103.67	\$70.88	\$73.40	1.7%	-0.3%
Mountain Regions, AB	1,797	81.4%	90.0%	\$392.25	\$323.20	\$319.29	\$290.88	0.0%	-9.5%
Vancouver, BC	12,333	74.8%	80.3%	\$148.84	\$163.38	\$111.33	\$131.19	0.3%	-6.7%
British Columbia Area	7,892	63.9%	66.4%	\$120.29	\$118.60	\$76.87	\$78.75	1.5%	-2.3%
Victoria, BC	2,936	72.1%	75.6%	\$151.59	\$164.56	\$109.30	\$124.41	0.0%	-4.5%
Provinces									
Alberta	21,256	71.0%	76.4%	\$139.51	\$139.40	\$99.05	\$106.50	1.1%	-6.1%
British Columbia	24,245	70.3%	74.7%	\$138.28	\$148.02	\$97.21	\$110.57	0.8%	-5.1%
Manitoba	4,146	66.3%	61.9%	\$90.12	\$90.44	\$59.75	\$55.98	0.5%	7.7%
New Brunswick	3,007	77.2%	83.5%	\$107.09	\$107.87	\$82.67	\$90.07	0.0%	-7.5%
Newfoundland	1,521	82.2%	82.6%	\$112.41	\$112.18	\$92.40	\$92.66	0.0%	-0.4%
Nova Scotia	3,770	82.9%	85.9%	\$115.85	\$114.41	\$96.04	\$98.28	1.7%	-1.9%
Northwest Territories	INS	INS	INS	INS	INS	INS	INS	INS	INS
Ontario	65,629	62.7%	72.8%	\$118.11	\$133.46	\$74.05	\$97.16	0.4%	-13.6%
Prince Edward Island	938	81.5%	86.3%	\$127.54	\$124.96	\$103.95	\$107.84	0.0%	-5.6%
Quebec	22,692	67.6%	77.1%	\$138.97	\$142.67	\$93.94	\$110.00	0.0%	-12.3%
Saskatchewan	4,863	55.3%	61.6%	\$78.55	\$76.55	\$43.44	\$47.15	-0.4%	-10.6%
Yukon Territory	579	69.9%	67.7%	\$96.88	\$94.12	\$67.72	\$63.72	0.0%	3.2%
Canada	152,646	65.6%	72.0%	\$114.60	\$119.35	\$75.18	\$85.93	0.5%	-8.4%

CANADIAN LODGING OUTLOOK
HVS INTERNATIONAL - CANADA

July 2003 Year-to-Date	Number of Rooms	Occupancy Rate (%)		Average Room Rates (\$)		RevPAR (\$)		Room Supply % change	Room Demand % change
		2003	2002	2003	2002	2003	2002		
Nova Scotia Area	1,693	56.1%	58.6%	\$81.67	\$81.77	\$45.82	\$47.92	0.3%	-3.9%
Halifax, NS	2,077	69.3%	69.4%	\$120.18	\$113.94	\$83.28	\$79.07	4.6%	4.6%
Montreal, QC	14,492	62.0%	65.5%	\$138.34	\$139.37	\$85.77	\$91.29	0.0%	-5.4%
Quebec City, QC	3,790	60.5%	65.0%	\$126.94	\$132.89	\$76.80	\$86.38	0.2%	-6.8%
Quebec Area	3,417	54.2%	54.7%	\$90.51	\$88.30	\$49.06	\$48.30	0.0%	-0.9%
Toronto Downtown	11,309	52.8%	65.8%	\$142.92	\$165.30	\$75.46	\$108.77	-1.9%	-21.2%
Toronto North/East	6,853	47.7%	59.5%	\$107.52	\$110.74	\$51.29	\$65.89	5.9%	-15.0%
Toronto Airport/West	6,541	59.4%	66.6%	\$107.00	\$113.06	\$63.56	\$75.30	-1.5%	-12.3%
Ottawa, ON	8,269	62.3%	62.4%	\$126.56	\$126.86	\$78.85	\$79.16	0.7%	0.6%
Ontario East	3,980	51.6%	55.3%	\$91.82	\$90.79	\$47.38	\$50.21	0.1%	-6.7%
Ontario Southwest	8,433	57.7%	59.2%	\$94.68	\$95.13	\$54.63	\$56.32	0.5%	-2.1%
Ontario North	5,404	56.2%	56.1%	\$94.60	\$95.55	\$53.17	\$53.60	0.3%	0.4%
Niagara Falls, ON	7,715	50.1%	55.8%	\$109.02	\$119.76	\$54.62	\$66.83	0.8%	-9.5%
Ontario Central	8,087	55.3%	60.5%	\$97.86	\$98.99	\$54.12	\$59.89	2.2%	-6.6%
Winnipeg, MB	3,760	59.5%	61.4%	\$91.82	\$90.75	\$54.63	\$55.72	1.4%	-1.7%
Regina/Saskatoon, SK	3,801	58.2%	60.7%	\$86.02	\$83.21	\$50.06	\$50.51	-0.8%	-4.8%
Calgary, AB	5,657	60.8%	63.4%	\$117.05	\$120.58	\$71.17	\$76.45	0.0%	-4.1%
Edmonton, AB	5,493	62.5%	76.3%	\$97.04	\$91.16	\$60.65	\$69.56	1.1%	-17.1%
Alberta Area	8,340	58.4%	61.1%	\$91.63	\$92.60	\$53.51	\$56.58	1.8%	-2.7%
Mountain Regions, AB	1,797	61.2%	66.8%	\$232.48	\$212.20	\$142.28	\$141.75	0.0%	-8.3%
Vancouver, BC	12,333	59.5%	62.9%	\$127.26	\$133.90	\$75.72	\$84.22	0.1%	-5.2%
British Columbia Area	7,892	53.0%	55.1%	\$141.87	\$141.47	\$75.19	\$77.95	1.2%	-2.6%
Victoria, BC	2,936	59.2%	61.3%	\$115.72	\$119.23	\$68.51	\$73.09	-0.2%	-3.6%
Provinces									
Alberta	21,256	60.3%	66.1%	\$113.97	\$112.63	\$68.72	\$74.45	1.2%	-7.6%
British Columbia	24,245	57.1%	60.0%	\$127.07	\$131.00	\$72.56	\$78.60	0.6%	-4.2%
Manitoba	4,146	59.3%	61.2%	\$90.63	\$89.45	\$53.74	\$54.74	1.4%	-1.8%
New Brunswick	3,007	60.0%	61.0%	\$93.09	\$92.86	\$55.85	\$56.64	0.3%	-1.3%
Newfoundland	1,521	62.7%	65.0%	\$108.16	\$105.73	\$67.82	\$68.72	0.0%	-3.6%
Nova Scotia	3,770	63.4%	64.8%	\$105.00	\$101.40	\$66.57	\$65.71	1.5%	-0.6%
Northwest Territories	INS	INS	INS	INS	INS	INS	INS	INS	INS
Ontario	65,629	55.0%	61.2%	\$111.58	\$119.66	\$61.37	\$73.23	0.6%	-9.5%
Prince Edward Island	938	48.0%	47.9%	\$95.28	\$92.56	\$45.73	\$44.34	0.0%	0.2%
Quebec	22,692	60.2%	63.1%	\$129.26	\$130.86	\$77.81	\$82.57	0.0%	-4.5%
Saskatchewan	4,863	54.9%	56.6%	\$81.07	\$78.44	\$44.51	\$44.40	-0.4%	-3.4%
Yukon Territory	579	45.4%	43.0%	\$84.42	\$82.16	\$38.33	\$35.33	0.0%	5.6%
Canada	152,646	54.7%	58.5%	\$106.64	\$108.25	\$58.33	\$63.33	0.6%	-6.1%

CANADIAN LODGING OUTLOOK

SPECIAL BUYERS AND TRANSACTIONS. If your hotel is suited for another use such as timeshare or condominium conversion, you may want to consider this form of exit strategy. By subdividing your hotel into smaller pieces or intervals you can often derive a significantly higher total sales price while maintaining management control. While these transactions require specialized expertise to structure and execute, the upside potential will generally justify bringing in consultants for assistance.

USE OF A BROKER. An experienced hotel broker will usually generate incremental value far in excess of any fees or commissions. These highly skilled sales people know who the buyers are, understand how to position the property to achieve the best sales price and create a competition among the buyers that maximizes the offers. The 2% to 8% you will pay the broker is generally money well spent.

OTHER CONSIDERATIONS. In addition to these ideas, when you decide to sell

your hotel, look into the tax planning issues, keep key employees during the sales process, reinvest your capital, closing costs and adjustments and how you value your accounts receivable?

If you have not implemented all these ideas, now is the time to work on your hotel divestiture strategy so everything is in place when the buyers come to look.

DEFINITIONS

Occupancy:	Rooms sold divided by rooms available
Room Revenue:	Total room revenue generated from the sale or rental of rooms.
Average Daily Rate (ADR):	Room revenue divided by rooms sold.
Room Revenue Per Available Room (RevPAR):	Room revenue divided by rooms available (occupancy times average room rate will closely approximate RevPAR).

*If you have any questions regarding this publication please send a message to bmacdonald@hvsinternational.com
Web Site: www.hvsinternational.com*



HOSPITALITY
VALUATION
SERVICES

Vancouver Office
4235 Prospect Road
North Vancouver, BC
Canada V7N 3L6
(604) 988-9743
(604) 988-4625 fax

Toronto Office
2120 Queen St. East, #202
Toronto, ON
Canada M4E 1E2
(416) 686-2260
(416) 686-2264 fax

New York Office
372 Willis Avenue
Mineola, NY 11501
(516) 248-8828
(516) 742-3059 fax

HVS is the leading consulting and appraisal firm specializing solely in the hospitality industry. *HVS* personnel have university degrees in Hotel Administration, or actual hotel work experience, and are taking further courses of study to obtain recognized real estate designations. *HVS* has consulted for over 10,000 hotels in 55 countries.



SMITH TRAVEL RESEARCH

STR provides information and analysis to all major Canadian and U.S. hotel chains. Individual hotels, management companies, appraisers, consultants, investors, lenders and other lodging industry analysts also rely on STR data for the accuracy they require. With the most comprehensive database of hotel performance information ever compiled. STR has developed a variety of products and services to meet the needs of industry leaders.

OFFICE:
735 E. Main St.,
Hendersonville, TN 37075
(615) 824-8664



HOTEL ASSOCIATION OF CANADA INC.

The Hotel Association of Canada is a federation of provincial and territorial associations, hotel chains and suppliers with a mandate to represent members nationally and internationally and to provide cost-effective services that stimulate and encourage a free market accommodation industry.

OFFICE:
Anthony Pollard,
1206-130 Albert Street,
Ottawa, Ontario K1P 5G4
(613) 237-7149