

## Brokers: It's a buyer's & seller's market

BY DENNIS NESSLER

**NATIONAL REPORT**—There's often a lot of debate about what kind of market the industry is in terms of transactions—and we know the cycle can change rather quickly—but a number of members of Hotel Brokers International (HBI) contend that right now is one of those unique periods when it's both a buyer's and a seller's market.

Driven by historically low interest rates, rising asset values, and the increased, albeit slight, availability of financing, brokers expect deal volume to continue to accelerate through the end of the year and into 2014. The longer-term outlook, however, could be a little murkier, particularly for sellers.

"Many sellers got caught short trying to ride the wave all the way to the top [in the last cycle]. This next 15-30 month period is probably the real window for everybody to win. After that, you're running into some risks," said Brandt Niehaus, president, Louisville, KY-based Huff, Niehaus & Associates, Inc. He added that particularly for the smaller investor, "now is the time for them to be buying. If they wait for 2015, 2016, interest rates will be higher and prices will be higher."

HBI, a nationwide network of hotel brokers including 26 offices, has completed some 84 sales totaling \$364 million thus far this year. Meanwhile, Niehaus noted they are forecasting at least a 20% increase in deals for next year.

Charlie Fritsch, president, Hotel Brokers International and Baltimore, MD based MBA Hotel Brokers, Inc. added that while interest rates remain historically low, that is not likely to be the case much longer. "Almost everybody anticipates rates going up at some point either next year or the year after, and as rates go up, [hotel] values are going to go down. From a seller's perspective, I think now is the time to sell while rates are low because it supports higher value," he said.

Richard Ehmer, president, San Francisco, CA based The Ehmer Group, also is bullish on overall market conditions. "We see a very vibrant market with a lot of buyers wanting to get in, whether they want to refinance for long-term debt at low interest rates or whether they want to do acquisitions. This is a good time for sellers to get out; they're able to get a price that they weren't able to get a couple of years ago," he said.

Another encouraging sign for additional deal volume is the fact that the spread between the bid price and the ask price has narrowed considerably, according to the brokers.

But Fritsch noted there are still segments of the market



The Comfort Inn & Suites, York, PA (above), was recently sold by MBA Hotel Brokers, Inc. The four-story hotel, built in 2000, has 129 guestrooms.

where the gap hasn't narrowed. "It's greater for smaller, older economy branded properties. Those owners are still thinking they can sell at three-and-a-half time gross and it ain't happening," said Fritsch, who noted his firm expects to do about 13 or 14 deals in 2013, and he's hoping to complete 20 to 25 deals next year.

The group acknowledges that one of the factors potentially impacting transactions is the product improvement programs (PIPs) mandated by the franchise companies, many of which were put off for a number of years during the downturn.

"PIPs are always a complicated part of every transaction, and the franchisors always take the ability on a transfer to upgrade a property. They are a third party, there's the buyer, there's the seller and then there's the franchise in every transaction. These PIPs we deal with can range from \$500 to \$3 million, which can dramatically alter any pricing parameters on a transaction," said Ehmer.

Fritsch noted the impact can vary, depending on the segment. "With the PIP it's a matter of the softer, weaker brands can't enforce them as much and they negotiate more. The stronger brands, they're tougher and the PIPs may increase in transactions, but I think the renewal PIPs not as much," said Fritsch.

Nevertheless, the brokers noted that while there's no shortage of deals available and while financing is available, it can still be a difficult process.

"I'm optimistic. There's a whole lot of product out there. The deals seem to take a lot longer to get closed, the money's hard to raise," said Blue.

Fritsch agreed. "There's money available but underwriting is more strict, every document has got to be submitted, everything has to be checked. It takes more time," he said.

Ehmer, underscored the positive market conditions. "There's a lot of deals out there, financing is available, the interest rates are low. It's a pretty liquid market compared to a few years ago if we step back to 2009 where nothing was happening. I see things moving, I see a lot of people starting to do transactions from the big companies down to the one or two asset owners," he said.

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The Wingate by Wyndham, Lynn Haven, FL was recently sold by MBA Hotel Brokers, Inc. The hotel was built in 2006 and has 67 guestrooms.



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