

my brg | settings | logout



BRG search hotels

[◀ back to search results](#) | [view all industries](#)

Business Reference Guide Online

search for information on 556 industries



Hotels & Motels

SIC: 7011**NAICS:** 721110**Number of Businesses / Units:** 48,000

Number of businesses is based on properties with 15 or more rooms. Source: American Hotel and Lodging Association.

See Also

▶ [Motels](#)

This industry comprises establishments primarily engaged in providing short-term lodging in facilities known as hotels, motor hotels, resort hotels, and motels. The establishments in this industry may offer food and beverage services, recreational services, conference rooms and convention services, laundry services, parking, and other services.

Rules of Thumb

275 percent of annual sales

8 times SDE

8 to 10 times EBITDA

2.0 to 3.5 times annual room revenues—average 2.5

Outside corridors—2.0 to 2.5 times annual room revenues

Inside corridors—2.5 to 3.0 times annual room revenues

Seldom seen—3.5 times annual room revenues

General Information

"Punch lists required by the franchisor can sometimes kill a deal. It is best to get this info upfront so price can be adjusted accordingly."

Note: What is the difference between a hotel and motel? "There really is none. The term 'motel' is derived from the term 'motor hotel,' which originally meant that the hotel provided parking (circa 1950s). The term motel today generally is used for a 'limited service' property (i.e., a hotel that provides a limited number of amenities and does not provide food service."

Source: American Hotel & Lodging Association

"Cost of buying vs building is dramatic. Consider purchase and conversion."

"Astute operators seek tour bus travelers and other group

Pricing Tips

"Most franchise flagged properties ask between 3–4 times annual room revenue and end up getting 2.5–3 times, depending on improvements needed, condition and brand of property."

"Hotels should be priced only after taking into consideration an ample FF&E Reserve of 4 to 5 percent of revenues (in addition to Repairs and Maintenance expense). Anticipate third party financing of 60 to 70 percent of the purchase price and debt service coverage (1.25–1.5) can be proven. Some like to analyze based on ADR and Occupancy Rates and some base on times gross revenue only. Land lease or Exterior corridor properties are going at 2x gross revenue and some interior franchise units may go as high as 3.5x."

"Buyer pricing should always be done AFTER provision form FF&E Reserve of approximately 4%. Repairs & Maintenance and FF&E Reserve TOGETHER should total approximately 8–9% of total sales. Forget exterior corridor properties."

"Usually use a rule of thumb from 2.0 to 3.0 of gross sales. In extreme cases, up to 3.5 for excellent franchised property. Age and condition of property as well as FF&E makes a difference. We use several approaches to actual valuation of a property. Adequate (approx 5%) for reserves. RevPAR (Revenue per Available Room) seems to be the thing today, not gross sales."

"Hotels are based on many things, since you just don't buy a hotel business. You have real estate attached 100% of the time. Revenue per available room, occupancies, average daily rates play important parts. In general, a hotel would sell according to the amount of rooms built. In general, you could take revenue per available room per year and multiply that by number of rooms then multiply that number by anywhere from 3 to 10 to get a price; of course this would depend upon what type of flag the hotel was flying. Food and beverage operations both in

business. Many customers prefer a continental breakfast. Others prefer late check-out. Parking close to entrance and sufficient handicapped parking is essential. 'Across the street' parking will reduce the value. Easy and safe entrance and exit to the property is valuable. No shrubs near doors or entrances to avoid insects, etc. Use of Key Cards a plus."

Expert Ratings

▶ Competition	2.8	(1=Lot of : 4= Not Much)
▶ Amount of Risk	2.4	(1=Very : 4= Not Much)
▶ Historical Profit Trend	1.6	(1=Down : 4= Up)
▶ Location & Facilities	2.8	(1=Poor : 4= Excellent)
▶ Marketability	3.4	(1=Low : 4= High)
▶ Industry Trend	2.4	(1=Declining : 4= Growing)
▶ Ease of Replication	2.8	(1=Easy : 4= Difficult)

Expert Comments

"There is a large pool of buyers for hotel properties but these buyers are discretionary and will not overpay. Good locations are nice but susceptible to newer, nicer developments which can hurt business. Mid markets with median competition are favorable."

"There is a lot of competition in the hospitality industry. Many properties turn a mediocre profit, but the appreciation in property value is usually the benefit. Buy a property, maintain it for 3-5 years, sell it for a profit."

Seller Financing

"Not usually seller financed currently"

"20 years"

"5 to 10 years"

Questions

"Punch list items for franchise. Capital expenditures. This can be huge."

Are there capital expense items that need attention? How much contracted room business do they have? How much room business do they have on the books and for how long a period of time? What was their last QA score if it is a franchise hotel? Do they know of any new highways being constructed in the future that may divert traffic to or away from the hotel? Any new competition coming up in the area?

hotels and free standing are similar. Basically a good rule of thumb is to take the replacement cost of the FF&E plus leasehold improvements, then add this amount to 50% of revenue or 3x seller's discretionary cash or bottom line after seller add-backs."

"Most appraisers use only the land plus building, plus FF&E for total valuation. We prefer to consider all of these, but add a value for the going business based on the gross and net income."

"Beach properties: 3 1/2 to 5 times sales. Ocean front: 4 to 5 times gross sales."

"Some buyers and sellers prefer to use a cap rate to determine value while others prefer a dollar amount per room."

"Whether or not the property is franchised, business hotel or resort can influence value."

"Large capital investment on front-end makes the property susceptible to new, better-located competition. Need ongoing reserve for replacement of FF&E."

"Location and franchise make a great difference. Also, we must consider extended-stay motels."

Benchmarks

"The United States HVI shows that per-room hotel values (expressed in dollars) increased, on average, by 22% across the United States in 2006,' report Sumit Kapur and Michael J. Pajak, who co-authored the document with Rushmore. On average, per-room values in the United States rose by roundly \$18,000 in 2006, and all but four of the 66 markets reviewed experienced increases in per-room value. Per-room values across the country have thus exhibited three continuous years of growth above 20%, following a decline in 2003. Even more telling is that the decline of capitalization and interest rates in the United States indicates continued favorable financing conditions for investors to refinance or buy lodging facilities for the next two years."

Source: 2007 U.S. Hotel Valuation Index, HVS, www.hotelmotel.com

"2 to 3.5 x gross room revenue. \$30,000 per room."

"2.5-3 times annual room revenue for franchises properties and 1.5-2 times room revenue for daily independent; about 1.5 times for weekly hotels."

Expenses as a Percentage of Sales

▶ Cost Of Goods	05%
▶ Payroll/Labor Costs	15%
▶ Occupancy Costs	75%
▶ Profit (pretax)	10%

Industry Trend

"Mid market and nice economy franchises are in demand as well as independent properties. Less need for pools and restaurants on site. Most people are busy and just need a nice clean place to lay their heads and be on their way."

"According to the American Hotel & Lodging Association, every company that tracks numbers on the lodging industry is predicting 2006 will set record numbers in just about every category. Smith Travel Research reports that in 2005, the U.S. lodging industry recorded its best year ever as it posted pretax profits of \$22.6 billion from 1 billion room nights. The good news continues for 2006, as demand is predicted to increase 3.1% for the year.

"Regarding construction, Lodging Econometrics reports there were 3,436 new hotels with 463,629 guest rooms under

development in the second quarter of 2006. With 1,582 more projects scheduled over the next 12 months, it is predicting that the building peak set in 1998 could be surpassed in 2007."
Source: "Hospitality Industry Welcomes Innovation" by Roger Slavens, August 14, 2006, <http://www.btobonline.com/>

"Around the country, many hotel operators are anticipating record-breaking revenue for 2006, amid rising demand for rooms this summer. But they may not want to celebrate quite yet.

"At the same time, the expense side of the business is clearly experiencing record increases in certain line items over the past couple years," said Scott Berman, principal in the hospitality and leisure practice at PricewaterhouseCoopers.

"Hotel operators, in fact, are finding higher expenses for labor, insurance, real estate taxes and fuel.

"In New York City, for example, property taxes, including recent increases in assessments, have risen by about 50 percent in the last five years, according to hotel operators, while fuel costs have grown 22.8 percent in the last year alone.

"The biggest single expense, though, is labor."
Source: "Hotel Revenue Climbs, But So Do Expenses" by Alison Gregor, *The New York Times*, July 9, 2006

Portsmouth, NH—"Lodging Econometrics (LE), the Industry Authority for Hotel Real Estate, has released, for the first time, its supply growth forecast for 2007 in its mid-year report to the lodging industry. Additionally, LE revised its forecast for supply growth in both '05 and '06 after reviewing over 3,000 project records in the Development Pipeline with individual Developers and re-verifying anticipated start and completion dates with various Brand Managers.

"Patrick Ford, President, said, 'LE forecasts that 917 hotels with 100,559 guestrooms will open in '07. That's the highest total for new openings since '01, but far removed from the peak set in 1998 when 1,532 hotels with 156,471 rooms opened. Because the supply increase forecasted for '07 is modest—just 16,101 more rooms than '06—and because the industry has already seen 26 consecutive months of improved demand, which is expected to continue well into the expansionary phase of the present cycle, 2007 is on track to become the second record-breaking profit year in a row. It's expected to exceed the record \$26 billion anticipated for '06.'"

Source: www.hotelmotel.com

"The supply of long-stay lodging has surged over the last seven years, increasing 2.4 percent last year to 245,357 rooms and more than doubling from 107,000 rooms in 1997, according to the Highland Group, a hospitality consulting firm in Atlanta. And demand has been picking up even more lately, according to Smith Travel Research, growing by 4.9 percent in 2004, the fastest rate since 2000, and surpassing the 4.6 percent jump reported for the overall hotel industry.

"What is driving the trend? Tight corporate budgets, for one thing."

Source: *The New York Times*, Tuesday March 29, 2005
"Hotel property prices: Almost all Lodging Industry Investment Council (LIIC) members predicted that hotel values will continue their upward growth over the next 12 months. This is being facilitated by improving hotel operating performance, an abundance and diversity of aggressive buyers and a cooperative lending climate.

"Where are we in the cycle? From the hotel operations cycle perspective, top-line revenue growth should fuel strong bottom-line growth for the next several years. In terms of the real-estate pricing cycle, the results ranged from 'we are peaking now' to 2009. A significant number believe we are nearing the cycle peak in terms of asset pricing."
Source: Hotel & Motel Management, www.hotelmotel.com

Advantages

- ▶ "Easy to operate. Have one mortgage, one phone bill, one electric bill."
- ▶ "Equity build-up and cash flow. Many motels have living quarters as a benefit. Special 'expense' items which inure to the benefit of the owner/operator."
- ▶ "Significant profit potential once operating costs are covered"
- ▶ "Ability to collateralize existing properties to finance new"

Disadvantages

- ▶ "Competition, affected by economy. Franchisor sometimes eats away at profit rather than bringing profit into hotel. What are they doing for you?"
- ▶ "Need to keep a good flag or maintain your independent to high standards. Lots of competition and new developments. The pie doesn't get any bigger but more hotels are taking a piece of the pie."
- ▶ "High fixed cost and debt-service levels. Very heavy labor costs."
- ▶ "Large equity commitment required (approx 40% of initial project cost). Industry is very labor intensive. Need major 'flag' affiliation and previous background in order to qualify for most lenders."
- ▶ "Competition moving in. Aging property. Management. Franchise not paying for itself. Bad location—neighborhood changes downward/road changes."

Additional Resources

Related Websites

- ▶ [Hotel&Motel Management](#)
- ▶ [Hotel Business](#)
- ▶ [Lodging Hospitality is a good site with an in-depth archive of excellent articles](#)

Trade Publications

- ▶ [LodgingMagazine](#)
- ▶ [HotelsandMotels: Valuations and Market Study, published by the Appraisal Institute](#)
- ▶ [Hotels](#)

[Terms of Use](#) | ©2008 Business Brokerage Press, Inc.