8 mistakes hotel sellers make

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Here are eight mistakes sellers make when selling an asset and how to avoid making them to achieve the best possible outcome.

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So, you have been approached by a broker and they want to take your hotel to market. Better yet, the opinion of value they have provided would allow you to beat your internal-rate-of-return target for the deal. The market may not stay hot, so you have to move quickly (so you are told).

Our suggestion: Pump the brakes and slow things down long enough to consider the following top seller mistakes and corrective strategies to insure a desirable outcome when you decide to sell.

1. Choosing the first broker you're approached by
Say thank you very much… and then seek three additional broker proposals to keep everyone competitive. Broker commissions are negotiable and so are the services they will provide. Make sure you meet the specific broker that will handle the sale (not just the sales front person). Hire the best of the best with a viable plan for selling the asset, not strictly on the promise of the best price. Remember the old adage, "if it (the price) looks too good to be true, it probably is." This is a six-month process, so you should like and trust the broker you hire.

2. Going it solo
Involve your asset manager (or other trusted expert) in the process from the minute you even consider whether or not it is time to sell. Experienced advisors will: provide a realistic hold-sell or refinance analysis; opine on the broker's opinion of value; gauge the reasonableness of the selling price; help you understand the limitations of various agreements (e.g., hotel management and loan agreements); and review proposed brokerage agreements. They may even be able to connect you with a buyer directly, expediting the process and minimizing transaction fees.

3. Unrealistic price expectations
Start the process with a realistic price expectation. The market sets the price, not the broker or even the owner for that matter. Unrealistic price expectations generally result in multiple failed attempts to sell, which does not send a good message to the market and exacerbates the turmoil in operations. At the end of the process, the price is the price a buyer is willing to pay. Think like a buyer first when preparing to sell.

4. Hiding the ball
Disclose, disclose and disclose again. The price offered by a potential buyer can be the starting point of a long and painful negotiation that always results in a re-trade. Most sellers (and all competent brokers) know that there are legal disclosure requirements for known conditions. But, we believe even those not “required” to be disclosed should be. If there is “hair on the deal” or issues that would reasonably impact price or a buyer’s decision to close, they will likely be discovered during due diligence. It is better to acknowledge these issues up front in the offering memorandum and simultaneously describe why/how they can be mitigated, rather than risk a re-trade or broken deal later in the process. Easily determinable new supply is an example. Also, don’t forget the project improvement plan that will likely come from the brand as a condition of re-flagging or transfer of management to the new owner, and the condition of all major equipment. Of course, we have seen instances where buyers do little due diligence – or do it poorly. But, a payoff is more likely to come from the tooth fairy than from this hide-the-ball strategy.

5. Disrupting operations
Selling your hotel takes a lot of time and money and can be disruptive to your hotel operations, which needs to be mitigated. Don’t broadcast to staff that the hotel is for sale until you absolutely must. It unsettles managers, hourly employees assume they will get terminated and vendors get nervous. Typically, the potential sale is disclosed to only the GM of the hotel and possibly the director of finance until the very end, and they are typically offered a stay-on bonus for remaining at the hotel until the closing. Remember a sale is not a sale until the money changes hands and the deed is recorded. That “closing” may take you through several potential buyers and multiple due diligences.

6. Failing to adequately plan for proration calculations
Carefully negotiate the pro-rations section of the purchase and sale agreement and include everything you can imagine. Typically, near closing, when the pro-ration sheet or settlement statement is prepared, sellers may be surprised to learn that buyers assume a position in their favor related to any item not specifically addressed in the agreement. Also, be sure to calculate your net proceeds in addition to knowing the sales price. Most investment models take into account the sales price and estimated selling costs but fail to acknowledge working capital. Prorating the income from before and after the cut-off time to seller and buyer takes some analysis and varies by operator and

product tier. Regardless, the number could surprise you. Imagine finding out a week before the sale that you will have to pay an extra $5 million based on the section of the PSA known as the purchase price adjustment? This is a number sellers need to be armed with when negotiating the PSA, to negotiate with the full picture in mind.

7. Unqualified or no team

Put together the right team. As a seller, your goal is to achieve your investment objectives of course, but after that, it is insuring that the proverbial wires reach their final destination. Until the lenders are paid off and cash is in your bank account, the deal is not done. You will want to make sure your lawyers have significant hotel transaction experience so they can protect you from pricing re-trades and the deal falling through. If your hotel is unionized, make sure they understand those implications. Liquor license? You will need local counsel. If you don’t have internal staff to perform the calculations in item six, you will want to reserve some funds for that as well. An experienced hotel accounting team will be able to highlight some of the hidden charges that come through just prior to the closing and minimize surprises, insuring a smooth transaction.

8. Unprepared for post-transaction details

Plan for what happens next. Very rarely does the buyer take on all tasks related to the transaction and the seller inevitably has a six to 12-month wind down period. Did you retain accounts receivable? If so, who will collect them? Did you cancel insurance policies and arrange for refunds? Are you prepared to pay bills which could come in for several months following closing? These are just a few of the items that require follow up and you will need to know who will perform these functions and how much it will cost.

The best way to know how things will turn out is to begin with the end in mind. Work with an expert to put your settlement statement together with best estimates of costs as placeholders and work through refining those amounts throughout the process. Those of us who see a lot of transactions have plenty of prior deal information to draw upon when developing estimates. Things like transfer tax rates are available on public websites. The balance sheet tells the story of what you hope to recover from operations or what you may need to pay. Consider all these things before the final decision is made. There is never a guarantee that the deal will close, but careful pre-planning will improve your chances and minimize surprises.

Celeste Ledoux (CPA) is managing director and CFO of CHMWarnick, a leading provider of hotel asset management, owner advisory and accounting services. The company asset manages over 70 hotels comprising approximately 28,000 rooms valued at roughly $15 billion. CHMW’s owner advisory services cover virtually every aspect of the hospitality industry, and all phases of a hotel’s life cycle, including specialized ownership accounting services. For more information, visit www.CHMWarnick.com or follow on Twitter @CHMWarnick.