

Buying Opportunities Abound in Bank REO Market

Now that many markets in the country have stabilized and a measurable recovery is underway, many astute hotel investors are searching for new lodging investment opportunities. A growing inventory of bank REO properties may be a good source of investment opportunities for investors seeking conversion opportunities for the Vantage family of brands.

In the arena of “distressed hotel assets”, many buyers still have misconceptions and need to educate themselves on how to buy bank REO assets. When a bank’s mortgage is not being paid by an owner, the bank can undertake foreclosure proceedings to gain legal control of the asset. In general, the bank takes possession via legal proceedings culminating with a sheriff’s sale, the period in foreclosure that begins a property’s redemption period.

REO (ReaEstate Owned) commonly refers to property now owned by the lender from foreclosure of mortgages or trust deeds. These properties are usually for sale. Banks are not in the hotel business and they are naturally motivated to sell the asset and take it off their balance sheets.

How can you be a successful buyer of a bank REO hotel? Here are three simple rules:

Use a Professional Hotel Broker – The complete inventory of REO assets is not easy to find. The banking industry is large and diverse, and many banks do not publicize their troubled assets. Calling banks directly is usually futile. Successful buyers of REO assets use hotel brokers, like the member-brokers of Hotel Brokers International, to identify properties and guide a buyer successfully through the sales process.

Be Prepared – Bank REOs are usually all cash deals with little due diligence and a quick closing. Good REO buyers have their equity readily available, have their legal counsel in place, have developed a plan for the asset, and are prepared to show the bank that the buyer is ready, willing and able to close the deal quickly.

Put Yourself in the Bank’s Shoes – Buying a hotel from a bank is not like buying a property from an individual owner. The bank’s goal is to dispose of the asset at its highest market value in a clean, efficient, non-contingent transaction. Banks are not influenced nor swayed by never-ending negotiation tactics and buyer game-playing. When you identify an asset and you want to buy it, give the bank your best, “as is” offer as your initial offer. Don’t expect to go back and forth with the bank. As unsuccessful REO bidders know, when it comes to REO sales, banks don’t say “no”. They say “next” to another, more stable offer.

These simple rules don’t begin to scratch the surface of the complexities and considerations one must understand to capitalize on opportunities in bank REO hotel sales (another reason to rely on your HBI broker). When you better understand the landscape in the bank REO market, the better you are positioned to take advantage of the many buying opportunities in this growing inventory of hotels.

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