

## The REO Hotel Buying Opportunity

The combination of the hotel downturn during the recent recession and the overly aggressive lending environment at the market peak has caused many hotels to be foreclosed upon by their mortgage lender. These REO hotels are now controlled by banks, financial institutions, note buyers, or Special Servicers.

REO hotels are a unique buying opportunity for hotel investors and operators. REO owners do not relish the headaches of hotel operations and are often very motivated to sell hotels within a specific time frame. Often, these hotels can be purchased for prices substantially below replacement cost. Another advantage of buying from a lender is the possibility of seller financing. (Please note that seller financing will not always be offered and almost never in the case of CMBS properties).

### A Profitable Opportunity

In our experience, over a moderate time horizon, REO hotel buyers usually do very well on their purchases (assuming they are prudent and properly capitalized). A great many fortunes were made buying REO hotels following the two previous recessions. These REO purchases have even provided the platforms that launched a few of the largest hotel REITs.

### The REO Hotel Profile

Certain distinctive characteristics are common with REO hotel properties:

- Deferred maintenance
- Little or no operating profits
- RevPARs below their competitive set
- Franchise compliance issues

### A Competitive Process

Buying REO hotels is a competitive process. Therefore, the best prepared buyers win. To prepare, have all of your financial statements, operating experience, and references written and organized for submission simultaneous with your initial purchase offer. Without this initial preparation, you will not be taken seriously by the seller or listing broker.

Sometimes, REO sellers move very slowly and, at other times, very quickly, causing confusion to buyers and a level of distrust towards brokers. This is usually because the lenders want to make sure the hotel is exposed to the market thoroughly (so they often appear to be unresponsive) and then, at some point, they decide to sell quickly to the best and most certain buyer (causing the appearance of irrationality).

### Suggestions for Buyers

1. Let a qualified hotel broker know your interest in buying and provide them with your financials and other credentials upfront.
2. Do not scrimp on legal representation. Be certain you understand all title and legal implications, including limited warranties.
3. Make sure you thoroughly vet all franchise issues and Product Improvement Plan (PIP) costs.
4. Be patient, but prepared to move fast. You will not get immediate responses to your offers, but if you are persistent, you will have chances to make a favorable deal.

**About the Author:** Alan D. Brock is president of Dallas-based Brock Hotel Group and presently serves on the Board of the Hotel Brokers International. Alan may be contacted at [alan@brockhotelgroup.com](mailto:alan@brockhotelgroup.com).