

Determining Hotel Values in Today's Real Estate Market

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Hotel investors and owners often try to determine the value of their hotel real estate holdings. This has become increasingly difficult in today's uncertain real estate environment.

Beginning in mid-2008, with the decline in the economy and the collapse of the housing real estate markets, we entered a new era of real estate valuations. All real estate, including hotels, has been re-valued to reflect the current economic and lending environments. The value of a hotel today is, in most cases, very different from the value of the same hotel just a year or two ago.

For those who would like to do a quick valuation of their hotels, following are two easy-to-use valuation methods developed by John W. O'Neil, MAI, Ph.D. of Hospitality Advisory Services, LLC. Before applying these methods, it is important to note that in order to arrive at a truer value of your hotel today, you must use the most recent available occupancy, ADR and NOI numbers.

ADR Rule-of-Thumb Method

Using this method, a hotel's value is determined by its Average Daily Rate (ADR) based on the following classifications:

Limited Service Hotels	\$700 per room for each \$1 of ADR
Midscale Hotels w/ F&B	\$600 per room for each \$1 of ADR
Full Service Upscale	\$900 per room for each \$1 of ADR
All Suites w/o F&B	\$1,000 per room for each \$1 of ADR

Automated Valuation Model (AVM) Method

Using this method, the hotel's value is determined by the following formula:

$$\begin{aligned} & - 42,873 \text{ (constant)} \\ & + \text{NOI per room} \times 5.615 \\ & + \text{ADR} \times 615.039 \\ & + \text{\# of Rooms} \times 33.693 \\ & + \text{Occupancy} \times 234.891 \\ & = \text{Value per Room} \end{aligned}$$

Following is an example of use of these valuation models to determine the approximate value of an 86-room, limited service hotel with occupancy of 56%, ADR of \$61.75 and NOI of \$391,545.

Using the ADR Method

$$\begin{aligned} & \$61.75 \text{ ADR} \times \$700 \text{ (for limited service hotels)} \\ & = \$43,225 \text{ per room} \\ & = \$3,700,000 \text{ (for 86 rooms)} \end{aligned}$$

Using Automated Valuation Model

- \$42,873 (constant)
+ (\$391,545 NOI / 86 rooms) x 5.615
+ \$61.75 ADR x 615.039
+ 86 rooms x 33.693
+ 56.3% occupancy x 234.891
= \$36,792 per room
= \$3,200,000 (for 86 rooms)

Using both valuation models, we presume this hotel's value to be in the range of \$3,200,000 to \$3,700,000.

It may be an interesting exercise for you to use these two valuation methods to determine an approximate market value of your hotel. However, be aware that, when determining the value of hotel assets, the final computation should be estimated by an experienced hotel appraiser. An inclusive value computation gives consideration to unique details about the property, including physical and financial condition as well as references important sales comparables.

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