

2016 HOSPITALITY LAW CONFERENCE

FEBRUARY 22-24, 2016

CAPITAL IMPROVEMENTS

Presented by:

Charles Broun

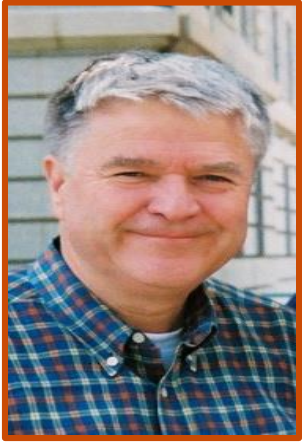
Brandon Raney

Jeff Crowley



HOSPITALITY
LAW CONFERENCE.COM

PRESENTERS



Charles Broun

Hospitality Consultant

- ❖ 25 years with IHG and its predecessors retiring as Vice President Franchise Administration. Specializing in hospitality law, lending and distressed properties. Prior to joining IHG worked in private practice and as an AUSA and AUST with USDOJ. Member of Georgia, Tennessee and Mississippi bars. Served on active duty and in the reserves with the US Navy as a Surface Warfare Officer, retiring as a Captain.



PRESENTERS



Brandon S. Raney

Founding Principal, BC Lynd Hospitality

- ❖ He is responsible for the oversight of the company operations as well as all aspects of investing and development
- ❖ Mr. Raney has varied experience buying and selling properties, syndicating single and multiple asset partnerships for both acquisition and development of real estate, negotiating with lenders and equity investors, contract negotiation, and managing a development, accounting and support staff



PRESENTERS



Jeff Crowley

Senior VP – HVS Asset Management

- ❖ 30 years of Hospitality Operations, Acquisition, & Development Experience
- ❖ Has been involved with more than 75 Hotel & Casino PIP's, Repositionings, Major Renovations & CapEx Projects



2016 HOSPITALITY LAW CONFERENCE

FEBRUARY 22-24, 2016

CAPITAL IMPROVEMENTS

Presented by:

Charles Broun

Brandon Raney

Jeff Crowley



HOSPITALITY
LAW CONFERENCE.COM

CAP EX PRESENTATION TOPICS

Operational Issues


- Reserve Fund Analysis
- Choosing The Team
- Controlling the Contractor

Refinancing & Capital

- Refinancing Concerns
- Renovation Capital



RESERVE FUND ANALYSIS

- Almost every hotel we have taken over to manage or asset manage has not have proper reserves for major renovations
 - Every owner needs to require an annual 7-10 year CapEx plan from their operator
 - First develop an annual expected CapEx budget for “normal” years
 - Determine when major soft goods or case goods or brand mandated major renovations will occur
 - Take the time to use a tool like the HVS Hotel Cost Estimating Guide to calculate costs
 - Have the operator prepare 7-10 year revenue projections
 - Apply your current reserve for replacement rate to determine shortfalls
- 

RESERVE FUND ANALYSIS AT 4%

Summary of Major Renovations	
Total Soft Goods in 2016	1,359,284
TV's in 2016 (168@ \$560)	112,890
Total Case Goods in 2019	1,574,322

Capex & FF&E Annual Contribution		
Year	Hotel Revenue	Annual Total @ 4%
2016	11,266,936	450,677
2017	11,830,283	473,211
2018	11,238,769	449,551
2019	11,575,932	463,037
2020	11,923,210	476,928
2021	12,280,906	491,236
2022	12,649,333	505,973

CapEx & FF&E Funds	2016	2017	2018	2019	2020	2021	2022
Beginning Balance	1,204,608	33,021	352,233	632,383	-665,242	-393,287	-127,522
Annual Contribution	450,677	473,211	449,551	463,037	476,928	491,236	505,973
Less Expenditures	1,622,264	154,000	169,400	1,760,662	204,974	225,471	248,019
Ending Balance	33,021	352,233	632,383	-665,242	-393,287	-127,522	130,432


RESERVE FUND ANALYSIS AT 6% STARTING 2017

Summary of Major Renovations	
Total Soft Goods in 2016	1,359,284
TV's in 2016 (168@ \$560)	112,890
Total Case Goods in 2019	1,574,322


Capex & FF&E Annual Contribution		
Year	Hotel Revenue	Annual Total @ 6%
2016	11,266,936	450,677
2017	11,830,283	709,817
2018	11,238,769	674,326
2019	11,575,932	694,556
2020	11,923,210	715,393
2021	12,280,906	736,854
2022	12,649,333	758,960

CapEx & FF&E Funds	2016	2017	2018	2019	2020	2021	2022
Beginning Balance	1,204,608	33,021	588,838	1,093,765	27,658	538,077	1,049,460
Annual Contribution	450,677	709,817	674,326	694,556	715,393	736,854	758,960
Less Expenditures	1,622,264	154,000	169,400	1,760,662	204,974	225,471	248,019
Ending Balance	33,021	588,838	1,093,765	27,658	538,077	1,049,460	1,560,401


CHOOSING THE RENOVATION TEAM

- Review your franchise agreement and PIP
 - Do a walk through and consult with your brand representative first
 - Reach out to the brand for recommendations on design & designers
 - Separate the project management function from architecture & design
 - Chose a designer that has worked with the brand & franchisor
 - Coordinate the designer and the brand & get a firm sign off on scope
 - Chose a general contractor that specializes in hotel renovations
 - Receive and review the schedule with the GC
 - Work with sales and revenue management to schedule the renovation to minimize impact on revenues
- 

CONTROL THE GENERAL CONTRACTOR

- Develop a good relationship and have daily and weekly meetings
 - You need to control the hotel not the GC – work times & noise
 - The GC and laborers need to be in logo'd uniforms, use proper language, etc as they will interact with guests & associates
 - Develop & agree on a plan to breakdown & reset guest rooms and public areas
 - Hold the GC accountable for damage to existing FF&E
 - Agree on who is responsible for cleaning prior to turnover
 - Do a daily walk through and inspect everything
- 

OPERATIONAL FOCUS ITEMS


- Strategic timing on dates to minimize revenue loss
 - Consistent and effective guest information and communication
 - Constant communication with the hotel associates
 - Limit noise by controlling times/dates that work is done
 - Keep the back of the house, loading docks, service elevators and break room clean & organized
 - Ensure that you do not spend excess labor and expenses related to renovations
- 

WHAT HAPPENS YEARS 6-8


- Many 20 Year Amortized loans balloon requiring refinance
- Soft goods and flat screen televisions age requiring replacement
- Brand requires upgrades to meet standards



REFINANCING CONCERNS

- Underlying financing restricts adding new debt
 - Mortgage and License Agreement prohibit change of ownership
 - Hotel fiscal performance must meet liquidity criteria in mortgage
 - Present value of property must justify refinance
 - Hotel cannot be in default with brand and License must extend beyond maturity of refinanced loan
- 

CAPITAL FOR RENOVATION

- Refinance with new or old lender assuming liquidity justifies
 - Adding new equity from investor or existing ownership
 - Brand offers financial incentive to licensee
 - Management company offers financial incentive
 - Limited availability from historical or public development sources
- 

REFLECTIONS

- Space was not utilized
- Initial Investment \$600,000
- Open only April - September
- Revenues \$2,000,000
- ROI – 100% in year 1

