



Obtaining Valuations Prior to Marketing a B&B or Country Inn

All Bed & Breakfasts/Inns are unique by design; in fact, it is that special and unique quality that distinguishes one Bed & Breakfast/Inn from the next. Innkeepers invest their creative energy and capital over time to create a welcoming and hospitable environment that is unique to their community and valued guests. While the charm and ambiance of an inn add to a patron's experience, such intangibles have only an indirect effect on the actual value. So, how can an innkeeper determine a realistic, fact based asking price before marketing their inn for sale?

A knowledgeable "B&B Industry Specialist Realtor" should be engaged very early on to consult on matters of value and how best to prepare the property itself and organize financial data prior to offering the inn for sale. A good number of these Realtors and consultants have been innkeepers themselves and are intimately familiar with their market area. They can expertly support the initial asking price with their own analysis of the inn's Financial Performance, Real Estate Improvements, Good Will, and Furniture, Fixtures & Equipment (FF&E). I cannot overstate how important it is for an innkeeper to accurately determine the market value of the business prior to making the inn available in the marketplace. In my view, arbitrarily assigning a value to a business and its assets based on what someone feels it is worth is imprecise and cannot be a successful approach, knowing that an appraiser will eventually establish a value of the business and its assets. The innkeeper or their representatives must be able to defend the asking price with tax returns to document the business's performance/viability over time and other documents to value its business assets.

Where the rubber meets the road: Ultimately, a "Bank/Lender Approved Appraiser" will be selected by the lender to appraise the value of the business and its assets. In most cases, the "Commercial Value" of a hospitality property will be largely determined by examining comparable sales and financial data for actual closed sales of "Comparable Properties" in the past two years. The bank's appraiser will make adjustments to account for location, physical amenities, cash flow and so on; but the final and most important determinate of value is the inn's historical ability to generate income; this value will be referred to as its value as a "Going Concern" or its commercial value.

What happens if the appraised value is determined to be less than the contract sale price? *Answer: The appraised value will be used to determine the actual loan-to-value, rather than the contract price.* When a property's value as determined by the bank's appraiser to be less than the contract price, the parties to the contract may decide to re-negotiate the sales price and modify the contract. One can imagine the anxiety the parties and their representative's feel when this happens. The chances of this occurring are significantly reduced with good representation, preparation and due diligence.



About the author: *Rick Newman founded Commercial Capital Network in 2004. His website www.InnFinancing.com provides useful information to Aspiring Innkeepers who wish to purchase “The Inn of their dreams” and Innkeepers who seek to re-finance or re-structure debt obligations.*

In 2007 Rick introduced an innovative program to the hospitality industry, which liberates the use of retirement assets for the purchase of an inn without incurring penalties or tax liabilities. This program has helped many of Rick's clients access capital to fund a more significant down payment.

Rick's connection to the hospitality industry has its roots in his family's 30-year ownership of a twenty-eight-room inn in New Hope, Pennsylvania. He maintains relationships with leading hospitality professionals and industry specialists, and has authored numerous articles on subjects of special interest to aspiring innkeepers. His testimonials pay tribute to the relationships he has developed with his valued clients. Rick is a member of Professional Association of Innkeepers International (Paii) since 2006.

Rick Newman, Founder

COMMERCIAL CAPITAL NETWORK

Read Reviews - www.InnFinancing.com

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