

How to appraise hotel real estate in today's oscillating market

 hotelsmag.com/news/how-to-appraise-hotel-real-estate-in-todays-oscillating-market

A recent newsletter circulated by a commercial real estate advisor (who shall remain nameless) stated:

“Property valuations will be all over the map as appraisers continue to use historic data and cap rates in a fast-moving and uncertain market. Appraisers are seriously concerned about their ability to provide accurate valuations in the coming year. Typically, their analysis looks back over 12-18 months for sales and rental comps, but with the current fluctuations in interest rates, discount rates and terminal cap rates, it's impossible to arrive at a solid number. While it is still a best guess, the feeling in the market is to do more frequent broker opinion of value (BOV). Brokers have a slightly forward-looking perspective as well as a more boots-on-the-ground understanding of the micro-property comps for a specific market.”

Wrong: With more than 40 years of broad real estate advisory experience that includes conducting thousands of property valuations of all types of lodging facilities throughout the nation, in my opinion, nothing can be further than the truth. Any appraiser worth their salt accurately reflects the current actions of market participants.

No different than institutional commercial real estate investors that acquire income-producing assets, a sophisticated appraiser will prepare a discounted cash flow (DCF) analysis for an assumed holding period. DCF analysis requires forecasting, which is regarded as the basis for rational business and/or investment decision making. Like a meteorological agency utilizing data to predict the weather, an appraiser forecasting employs historical facts and information to make reasoned estimates about the direction of future trends.

In a fast-changing world, uncertainties and risk are inherent in all forecasts. Uncertainty is difficult to manage, but uncertainties can be converted into known risk. When risk is understood, it can be categorized, mitigated, managed, hedged, or even avoided. Uncertainties require continual review to identify changing facts and circumstances that affect risk. While business forecasting will always be critical to making well-founded decisions, it is important to be cognizant that predicting the unpredictable is to some extent a crapshoot, and that accurate forecasting is based in part on art and science, and mostly experience.

In a nutshell:

- Property valuations should not be “all over the map”... as appraisers do not make markets. Rather, appraisers determine from available market data what is the most likely price an asset would transact for in the open market. While the value opinion of individual appraisers may vary, the same holds true for brokers.
- Sophisticated appraisers are no more “seriously concerned about their ability to provide accurate valuations in the coming year” than are market participants including buyers, sellers, lenders and brokers.
- It is not typical for an appraiser’s analysis to merely “look back over 12-18 months.” If the market “looks back over 12-18 months,” then an appraiser is obligated to do the same. If, however, the market prices assets on a “forward-looking perspective,” an appraiser must reflect the actions of market participants and do the same.
- If, in fact, “current fluctuations in interest rates, discount rates and terminal cap rates, (renders) it impossible to arrive at a solid number,” the challenge in rendering a credible opinion of value is faced by not just appraisers but also market participants including buyers, sellers, lenders, and brokers.
- Though it may be correct that some “brokers have a slightly forward-looking perspective as well as a more boots-on-the-ground understanding of the micro-property comps for a specific market,” it does not imply that an appraiser does not also implement a “forward-looking perspective as well as a more boots-on-the-ground understanding of the micro-property comps for a specific market.”

Story contributed by Daniel H. Lesser, co-founder, president & CEO of LW Hospitality Advisors.