



Jul. Aug. 04
Web Exclusive

**Editorial
 Calendar**

Media Planner

Reprints

**Issue/Article
 Orders**

Issue Index

**Current
 Advertisers**

Contact

Limited Service and Boundless Determination

By Sarah Exley

In December 2003, Jeff Roberts, CCIM, president of Roberts Properties LLC in Muskogee, Okla., purchased his first hospitality property, the Holiday Inn Express in Tahlequah, Okla. Never in the company's 27-year history had it worked with this type of property. And not only did Roberts buy the limited-service hotel, he decided to manage it as well.

Roberts specializes in development, primarily big-box conversions and build-to-suits for retailers such as Dollar General and Dollar Tree. So why would his company foray into a commercial real estate segment in which it had no experience? "We wanted to learn more about hospitality [properties]," Roberts says.

Diving In

From the moment a local broker introduced him to the idea of buying the hotel, Roberts began analyzing everything from costs to competition. "The numbers proved this would be a strong investment," he says. He also liked that the hotel was located only 20 minutes from his office, had little competition in the market, and was part of a national franchise chain. Also, "it had great market protection" being so close to Northeastern State University in Tahlequah and near the borders of Oklahoma and Arkansas.

After analyzing the pros and cons, the company decided it was time "to get [its] feet wet" in the hospitality arena, Roberts says. It purchased the 62-room hotel for \$2.8 million, made minor renovations, and added three new employees to the hotel staff. Roberts also improved the property's amenities. For instance, he added On Command, an in-room pay-per-view sports and movie network to appeal to business travelers accompanied by family. The company hopes to increase revenues by updating the rooms and entryways in the coming year.

For the first few months everything seemed to be running like clockwork. However, it wasn't long before the property encountered some unexpected roadblocks.

Live and Learn

Roberts quickly learned that hotel vendors don't work the same way as commercial real estate clients: When accounts are not paid, shipments cease. "It's challenging because many vendors want to be paid weekly, as opposed to monthly," Roberts says. In his real estate business, Roberts pays employees monthly.

This payment confusion cost Roberts his PepsiCo and Sysco Corp. contracts and sent his staff scrambling to restock food and beverages for their hotel guests.

Roberts realized it wasn't likely the property would immediately turn a profit, but after the first two months of possession he discovered there were unpaid vendor accounts "and no means with which to pay them. Finally, Roberts discovered the problem: He hadn't transferred the merchant accounts, such as Discover, Diners Club, and American Express. "For two months, every payment from those cards was going into the seller's account instead of ours," he says. Fortunately, Roberts has a good relationship with the previous owner, so they quickly resolved the problem.

Despite some initial setbacks, just five months after purchasing the hotel, it's turning a profit. As of May 31, 2004, the property recorded a net operating income of \$93,000.

Solid Investment

Despite the learning curve associated with hospitality ownership and management, Roberts believes limited-service hotels are great investments, especially for those new to the market. "We don't have the liability of full-service hotels" that employ larger staffs and have higher overhead. "The fact that [limited-service hotels] gear toward business travelers and road warriors" also creates perpetual business, Roberts says.

Limited-service hotels also can be good additions to clients' portfolios. Roberts even suggests having a small portfolio of several limited-service hotels rather than one full-service hotel or resort.

Tricks of the Trade



Sarah Exley is publishing and editorial coordinator of *Commercial Investment Real Estate* magazine.



Most Viewed Articles:

- [Excel at Financial-Analysis Calculations](#)
- [Singling Out Triple-Net Leases Cap Rate Follies](#)
- [Review the Fundamentals of Section 1031 Like-Kind Exchanges](#)
- [7 Real Estate Finance Myths Unveiled](#)
- [When the Going Gets Tough Market Trends Online](#)
- [Leasing Lessons](#)
- [Small Cities Mix It Up](#)
- [The Power of Positive Thinking](#)

Most Emailed Articles:

- [Russia Rising](#)
- [Singling Out Triple-Net Leases](#)
- [When the Going Gets Tough](#)
- [Excel at Financial-Analysis Calculations](#)
- [Cap Rate Follies](#)
- [Feasting on Fast-Casual](#)
- [Small Cities Mix It Up](#)
- [Considering CRTs](#)
- [Leasing Lessons](#)
- [Review the Fundamentals of Section 1031 Like-Kind Exchanges](#)

Though he only has less than one year of experience in this niche, Roberts learned a few things along the way. Here are his top three tips for commercial real estate professionals who are considering buying or operating a limited-service hotel.

Study the Product -- and Yourself. Look at the numbers. Is this a profitable property? If not, does it have potential? Be honest with yourself; if you're only in it for the money, you may not be willing to put in the time required to renovate the property.

Check In to Check It Out. Quietly conduct an on-site inspection by staying as a guest. How do customers and staff view the property? If you see any red flags, it's probably best to walk away from the deal.

Accept the Chaos. To be successful in the hospitality industry, you must accept that things will go wrong. Do your best to anticipate and prevent problems and roll with the punches when issues arise.

Copyright © 2004 CCIM Institute. All rights reserved. For more information call 312.321.4460 or [e-mail](#) us.

