



2021 Inn Financing Update

By Richard K. Newman, Founder - Commercial Capital Network, LLC



The last time we had interest rates at present levels, we were faithfully watching such great shows as Leave it to Beaver, Dennis the Menace, and I Love Lucy.

Times have changed, and interest rates have gone up and down over and over since then. We continue to enjoy historically low rates, but there is a growing sense that this can't last forever, which seems to motivate potential hospitality buyers searching for "The Inn of Their Dreams".

It's not just couples who have "Retired but are not Tired" anymore; we see younger people attend conferences and aspiring innkeeper training sessions. Many of these buyers have financial resources beyond just savings or equity in real estate. Individual retirement assets have grown substantially in recent years, and I often wonder if people are concerned that the run-up in the stock market may be nearing its end.

There is a program for people who want to invest in themselves by purchasing a business with a proven record of success. It is a little-known fact that retirement assets can be used to acquire a business. This program harnesses the power of the assets and can significantly impact an investor's purchasing power. The structure offers long-term growth in the value of the retirement assets through pre-tax contributions and tax-deferred treatment on the growth of the plan.

The Employee Retirement Income Security Act (ERISA), which created the IRA in 1974, places surprisingly few restrictions on how retirement money can be invested. Except for life insurance or collectibles such as artwork or coins, IRA funds can be placed in just about anything. Tens of thousands of investors have switched their retirement savings to self-directed accounts since the stock market correction of 2000 and 2001.

When the cash requirement of an acquisition/start-up exceeds the available account balance of the principals, multiple investors may invest in a single project through the same self-directed 401(k) plan; this feature may be very useful/attractive to family members or outside investors who wish to provide financial assistance or take advantage of an investment opportunity.

For Innkeepers: Are you an Innkeeper thinking of selling your inn? Wondering how banks are going to look at 2020 and the “Covid Affect?”

Since the value of commercial real estate is substantially based on the income generated by the business occupying the asset, a seller should do all that is possible to maximize the gross income and control expenses to achieve the largest Net Operating Income (NOI).

Refinancing current liabilities may be desirable or necessary to fund improvements that will make your inn more desirable to prospective buyers and will undoubtedly impact the value of the business. If your exit horizon is within the next few years you will want to do all you can to enhance the value of your inn.

- **Make sure your financials accurately reflect the businesses income and expenses**
- **Show all you can on the bottom line**
- **Add guest rooms to achieve the economies of scale and increase your top line**
- **If possible, develop a schedule of events to further increase the top line**

A reality check for sellers: Business Tax Returns are everything when underwriting a commercial loan request. The business returns must document that the net income from the business alone can comfortably service the desired level of debt. It is understandable that innkeepers reduce taxable income by deducting every justifiable expense they can... this practice may work from the owners' perspective, but it can make financing an inn extremely difficult when the business shows red ink. Income from sources outside the inn can rarely be used by the Loan Analyst to offset losses in the operating income from the inn.

The loan amount and Loan to Value (LTV) are established based on the analysis of the business financials and the “Appraised Value” as determined by a full narrative commercial appraisal which has been conducted by an appraiser who has been approved and engaged by the lender. The actual loan amount will be determined by the Loan Analyst/Underwriter, based on the historical record of income and deductions from the tax returns, not the P&L's. Generally speaking the only add-backs to the bottom line on the business tax returns are Officer's Salaries or Rent, Mortgage P&I and Depreciation.

With interest rates at an all-time low, now is a great time to reorganize debt, make capital improvements or refinance a loan that is ballooning, adjusting, or priced above prevailing commercial rates. How long interest rates will stay at this level is anyone's guess but many experts express concern over the future of our economy and the impact market conditions will have on long-term interest rates.

Good Planning produces positive results, so it is important to be well informed and plan your moves carefully. The current real estate and financial markets are steady, and opportunities exist if you know where to look and have the good sense to seek advice and assistance from qualified professionals.



About the author: Rick Newman founded Commercial Capital Network in 2004. His website www.InnFinancing.com provides 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 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. Rick has authored numerous articles on subjects of special interest to aspiring innkeepers. His testimonials pay tribute to the relationships he has developed with his clients. Rick is a member of the Association of Lodging Professionals - ALP