

## Industry Metrics: What does it mean to your checkbook?

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## Session Overview

- Consider what your Innkeeping goals are
- Examine what creates value
- Look at sales statistics
- Create an action plan
- Make it work for you!



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## What are your Innkeeping goals?

- Have fun (of course!)
- Make a living (gotta do that)
- Have a great tax shelter (it can be that)
- Build wealth (oh, yes you can...)
- Eventually retire (that's not Innkeeping, is it?)



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## Sale Price and Financial Metrics

- Gross Revenue is the total revenue coming into the business from all sources (rooms, events, food & beverage, gift shop, etc.)
- NOI (Net Operating Income) is the profit left after deducting operating expenses from gross revenue BEFORE considering debt service (mortgage), owner compensation, depreciation, etc. (EBITDA)
- NOI is the amount available for a buyer to pay debt service and to pay themselves.

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## How much NOI should I have?

- 35% to 45%
- That was easy, wasn't it?!

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## Occupancy

- 2017 Inn Sales range:
  - Low: 21%
  - High: 79%
  - Average: 43%
- 112 sales:
  - Low: 21%
  - High: 79%
  - Average: 44%
- Your "right" number may depend on your market

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## Occupancy calculation

- # of rooms x 365
- # of room nights sold
- Room nights sold as a percentage of TOTAL available room nights in a 365 day year (not the days you were open!)
  - Seasonal calculation in some cases
- EXAMPLE:
  - 10 rooms x 365 = 3,650 potential available room nights
  - 1,825 nights sold
  - $1,825 \div 3,650 = 50\%$  occupancy

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## Gross Revenue Multiplier (GRM)

- 2017 Inn Sales range:
  - Low: 2.0 (full service inn)
  - High: 6.4 (seasonal B&B)
  - Average: 4.2
- 112 sales:
  - Low: 2.0 (same property)
  - High: 7.9
  - Average: 4.4
- Consistent metrics for decades

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## GRM example

- GRM = Gross Revenue Multiplier
  - Sale or asking price ÷ gross revenues = GRM
  - Price is \$1,000,000 and room revenues are \$200,000
  - $\$1,000,000 \div \$200,000 = 5.0$  GRM
- Or the other way:
  - Revenues are \$200,000
  - Comparable GRM is 5.0
  - $\$200,000 \times 5.0 = \$1,000,000$
- GRM can range from 2-10 or higher; 4-6 (on *room* revenues) for financially viable B&Bs; lower with food service
- Does not consider condition, owner's quarters, land, other amenities

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## Capitalization Rates (cap rates)

- 2017 Inn Sales range:
  - Low: 7.2% (lower cap rate = higher price)
  - High: 15% (full service)
  - Average: 10.2%
- 112 sales:
  - Low: 5.8%
  - High: 15% (full service)
  - Average: 9.6%
- This measure of *profitability* has been steady for years

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## Cap Rates example

- Capitalization rate calculated by dividing NOI (Net Operating Income) by the price, as a %
- Gross revenue = \$225,000; operating expenses = \$125,000; NOI = \$100,000
- $\text{NOI} \div \text{cap rate} = \text{price}$
- $\text{NOI} \div \text{price} = \text{cap rate}$
- Cap rates and price are inverse
  - $\$100,000 \div 9\% \text{ cap rate } (.09) = \$1,111,111$
  - $\$100,000 \div 10\% \text{ cap rate } (.10) = \$1,000,000$
  - $\$100,000 \div 11\% \text{ cap rate } (.11) = \$909,091$

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## Don't bury personal expenses!

- Your NOI on tax return (after add backs) is \$100,000
  - At 10% cap rate = **\$1,000,000** price
- You've "buried" \$20,000 "personal" in expenses
  - Income tax on \$20,000 = **\$5,000** +/- you "saved"
- Add personal back in:
  - NOI would be \$120,000
  - At 10% cap rate = **\$1,200,000** price
- Which would you prefer?

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## How is ROI created?

- 1. Benefits of living on property
- 2. Cash flow before tax
  - Income tax liability reduced by depreciation
- Principle reduction on debt



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## Key Factors Affecting VALUE



- **Location**
- **Condition**
- **Income**



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## Key Factor Affecting PRICE

- Motivation



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## Key Factor Affecting SALE

- Price



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## So, what do you do?

- 1. Run your business for profit if you want to sell it
- 2. Keep your books current at least monthly
- 3. Have an exit strategy
- 4. Maintain property condition and marketing
- 5. Be excited!

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THANK YOU!



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