

Due-diligence process can make or break an acquisition

(as published in Hotel & Motel Management – July 4, 2005)

In the frenzy surrounding the acquisition of an existing hotel, many activities are required from the time a project is put under contract to the time the deal is completed. One of the most important aspects of the sale and purchase of hotel properties is the technical Due Diligence process. Unfortunately, many times hoteliers only go through the motions, assuming that if a hotel looks great and operates well, underlying problems will be minor.

This investigation into the “bones” of an older existing asset can be critical to the success or failure of your venture. If done properly, Due Diligence can vindicate your vision of a potentially successful project or can save you from making a costly mistake by exposing latent defects that could ruin a development project or an entire company.

So what is the technical Due Diligence process? In a nutshell, it is the skilled, in-depth investigation into the structural, mechanical, architectural, and construction components of a hotel by design and construction professionals. The product generated by the Due Diligence team should establish cost parameters for immediate repair and maintenance needs, future capital, and conversion costs.

When purchasing an existing hotel, the Due Diligence process begins with the assembly of a team of experts. This team usually has, at minimum, an Architect, a Construction Project Manager, a Structural Engineer, and an Mechanical/Electrical/Plumbing Engineer. One of the first activities for the team is to visit the property and evaluate the need for any additional specialized technical experts. Evidence of water infiltration would signal the need for a roofing consultant; the presence of mold would dictate a microbial expert, and any visible problems with the elevators would necessitate a vertical transportation consultant. Any one of these additional experts can save an owner tens of thousands of dollars over the course of a renovation.

Once the initial site visit is complete, the Due Diligence team has just begun its work. The team must now evaluate the data it collected on site and translate it into a meaningful report that addresses immediate needs, future capital, and replacement reserves. A complete Due Diligence report will provide an owner with a total project budget so that he or she knows what needs to be spent on repairs and maintenance, upgrades, and repositioning costs. Thought must be given to the cost of operating supplies, pre-opening expenses, specialized systems, and a sufficient project contingency. The schedule for completing the renovation should also be an integral part of the Due Diligence report.

All of these categories must be compiled and thoroughly reviewed with the client prior to publication of the final Due Diligence report. After all, the Due Diligence budget should form the basis for the money the client will have to spend to renovate and reposition the

asset. On most projects a conceptual design, noting at a minimum the planned design changes, can be a valuable tool. The conceptual design can be used to understand the final product and to provide more accurate takeoffs of the renovation quantities.

The reality of Due Diligence is that “he who hesitates is lost.” You are always under a tight time constraint in the Due Diligence process. Consequently, experience in renovation and repositioning of hotels should be the prerequisite for the Due Diligence team members. There is no substitute for experience in doing this work.

Look for a team of design and construction professionals that is used to expecting the unexpected. Find professionals who have done it before, who know what to look for, and where to look for the problems. You don’t want a team that only looks for the beauty within the asset; you want a team who can also find the demons lurking behind that handsome façade. You will thank them for doing so, and so will your investors.

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