

TRG 42 Transcript

Nichole Stohler

What if you could be doing something smarter with your money that creates income right now? If you're an IT professional is wanting to get ahead financially and enjoy greater freedom of choice. And if you wonder who else in tech is creating ways to make their money work for them? You want actionable ideas with honest pros and cons and no fluff. Welcome to The Richer Geek Podcast for helping IT professionals find creative ways to build wealth and financial freedom. I'm your host, Nicole Stohler and in this podcast, you'll hear from others who are already doing these things and learn how you can too.

Hey, everyone, welcome back to The Richer Geek Podcast. On my website, I have a place where you can ask questions or you can send me a note if you want to be a guest on the podcast and I encourage you to do so. I received an excellent email from a listener who said I just finished watching Episode Number 30 buying a hotel And I realized that I don't know what it is all that I need to know about the basics of hotel investing. So I was wondering whether you can create a podcast on the basics of hotel investing. I loved that he asked this question because no matter what business you are in, or what profession, whatever you do, there's so many things that you do over and over again, that you don't think about or take the time to explain because they're just second nature to you. And he really helped me see that we haven't really shared some of those details. Okay, so since we're going to be talking about hotels, I am thrilled to have Mike joining me here today.

Mike Stohler

How's it going, everybody?

Nichole Stohler

Now, before we get into his questions, I also want to share he sent me some follow up questions because I sent him a note back I wanted to understand more about his current situation. And he shared that he was doing research about investing apartment buildings versus buying an existing business. And that's when he saw my podcast that was on the bigger pockets podcast. And he realized that hotel investing could be a happy medium between real estate investing and buying a business. And he'd like to know if I think that's the right assessment. also asks, should he park his money into some high yield savings or brokerage account until he has enough to buy an apartment building a hotel or some other type of business? Or should he start small and buy a duplex and a four Plex and get some hands on experience in real estate investing? And then finally, he asked, I remember you talked about using skills from one industry to another. I have experience in handling software implementation projects, but not any experience on the operation side and do you think it would be better if I work in some hotel part time to get an idea of how things work? Alright, let's dive into some of that. Top Level questions when I asked him more about his situation. And then we'll get into the specific detailed questions that he asked.

Mike Stohler

All right, Nichole. So you know, let's go back and forth a little bit. I'll ask the his first question and you can answer it and we'll just ping pong back and forth. His first question was pretty interesting: is buying a hotel a happy medium between real estate investing and buying a business?

Nichole Stohler

I love this question because out of the gate, realize that if you're buying real property, you're the one owning the property. I'm not talking about a crowdfunding investment or you're investing as a passive investor. But if you're buying real property, even if it is just one single family home, that is a business, you're going to need to set policies, procedures, you're gonna have to have structure to support your tenants and your residence. And even if you have property management, they're going to need all those things and you need to oversee those things because it's your asset. You're going to have bookkeeping paperwork in various terms. So at the first level, understand that that is a business. Now, a hotel is a more active real estate type of business. It's very much like if you compare short term rentals to long term rentals and if you ask people that run both of those, the difference in the activities and the things that they need to do. In our case with the hotel, we have general managers, we have staff to support guests 24 by seven, we have marketing that comes from the flag or the brand name corporate, but we also have local marketing. We have community engagement, our rates fluctuate daily, we're tracking those and by season or reaching out to local businesses. All of these are levers that you can use to help grow the business. And the question is, is that interesting to you? Or would you much prefer that you're a little more hands off. The only other thing that I wanted to point out is you can outsource all of these things. businesses to management company. So you all are familiar with property management for long term and short term rentals, different companies potentially or the same type of company offer that service. And there's also property management for the hotel.

Mike Stohler

And if I could add on a little bit, Nicole, some of the things that I've learned we've owned some fairly large multifamily. And now we've in a couple hotels, the biggest change for me, from the multifamily The hotel is I've learned that the hotel is a business. So we we bought a business that happens to have real estate attached to it. So I almost consider it. You know, the single family, the multifamily this more a real estate investing type of a thing. Hotel is, for me a true business that has an asset, that is real estate, where we can still take advantage of those depreciations and those write offs, but it is it's a true business. You have Dozens and dozens of employees you have, you know, every aspect of, of running a business. So it's it's very interesting. The next question that he said is that he remembered that you talked about using skills from one industry to another. He has experience in handling software implementation projects, but not inexperienced on the operations side. Do you think it would be better if I work in some hotel part time to get some idea of how things work?

Nichole Stohler

I think that you could certainly do that. We've talked about how Mike way back in the day, Mike went to go work in property management so he could learn that aspect of the business. The

thing I would caution though, is, while he learned property management, there's more to owning a property that he didn't learn. So there were pieces probably operational types of pieces that you would pick up if you're working in a hotel. So that would be good and beneficial. But you could also get a really strong mentor, an excellent General Manager. There's other pieces there. But how do you find the right kind of hotel? How are you making a good investment decision? Mike did not learn that because of his property management experience that came with time and experience.

Mike Stohler

You're exactly right. In order for me to be a landlord, when I went to work for the property management group that taught us and me how to become the landlord how to run applications on that type of very small operational type of side, I learned zero because I didn't have any access to that type of information, what they paid for what the ownership looked at when there's zero information. I learned how to run a multifamily and apartment complex that's it. Hire fire applications. There's zero, you know, that I learned about buying. That's why, even though we have 20, you know, off and on 20 some years experience in single family multifamily. When we made the decision to go into hotels, what did we do? We partnered with an operations person that had 30 years experience in the hotel industry. Because even though I know how to check in and check out of hotel, I know that there are front desk people, housekeeping maintenance, I had no idea how to buy the actual hotel. So you're right, if this person goes and works at a hotel, he's going to learn, okay, this is one type of software that this type of flag uses. This is how you see hi may help you in those types of things and you're going to learn the different aspects of buying. It's a whole other different animal. So I commend him for wanting to do that. He needs to Get a mentor like we did in every aspect of our businesses. And Nicole, this is a good segue. This is it's a perfect type of question that he answered that he asked. A lot of people don't even know that you can buy hotels on individual. their mindset is all on single family and multifamily. So there they have a lot of interest about the hotels. So we've decided and we're thinking about coming up having some workshops on what you look for in particulars and how you buy hotels, and the difference between how you would look at multifamily and hotels. We're going to have some workshops coming up and we're going to be discussing the ins and outs, pros and cons of investing in hotels.

Nichole Stohler

And if you're interested in those workshops, you can sign up there is a link in the show notes for today's show. There's one last high level question That he asked, which is should I park my money into some high yield savings or brokerage account until I have enough to buy an apartment building? Or should I buy a small duplex or four Plex to get some hands on experience with real estate investing?

Mike Stohler

Okay, it's a good question. It's, I don't like the idea of just parking money. If you have money and you're going to use it, I want you to utilize it effectively and efficiently to where you're going to learn something, parking your money in a high yield anything with the bank. How's that going to make your money work for you and how are you going to learn? I would rather

him get with a mentor, partner up in some type of whether it's a duplex you know, four Plex whether he's doing a syndication, not large syndication, but you know, something where someone can take him under his wing and learn. That's how you do it. Plus, I don't want him to think of the aspect of parking money when he goes into real estate, whether it's a duplex whether so doesn't matter what it is. Now you have some tax laws, now you have different laws you can take advantage of to where it actually helps. Not only is he learning, but he is also helping his taxable income, you know, by reducing things and mortgage interest write offs, deductions and things like that. So don't park it in a bank, you know, episode all the financial advisors, bankers out there. We are real estate investors. That's what we do. Partner with someone, whether it's 20 people or a JV agreement, just one other person, but learn, this is the way to do it.

Nichole Stohler

Awesome. Alright, let's dive into these detailed questions. Now, this was the original list of questions that he sent me before I asked him more about his situation. And we're just going to go down this list of six questions. One he wanted to know: how many rooms are considered small, medium and large sides hotel and respectively when it comes to flagged hotels.

Mike Stohler

Okay, you know, it's not something that we kind of really think about whether size with that. I would say, also we're going to consider is it an urban flag hotel or is it out in the country, you know, residential, but a small flag hotel, you're not going to see many flags, hotels and Lester boutiques that are going to be under 50 or 60 rooms, keys as we call them, the hotel business, medium size, you know, again, it's maybe up to 150 keys and then large size going to be up to 300 or so and then you get into the actual large resort and those types of where you You see, you know, thousand keys, but it's you know, that's not something we really look you know, at is whether or not Oh, I have a small flight hotel or not. I just want to know, is my hotel making money?

Nichole Stohler

Great point. All right. How much is the average investment for those sizes?

Mike Stohler

Okay. I see a trend in these questions. There's gonna be sorry, everybody they're gonna be kind of broad kind of, you know, the what ifs. The average investment of these sizes well, are we in Iowa? Are we in New York City or San Francisco? Is that a Marriott? Or is it a red line and or choice hotel? So a flagship hotels, you have your premium flags, your Marriott, your Hilton's things like that, the same size, but say 100 room maryada is going to be twice the cost or more than 100 key choice hotel quality and you know, those types of things. So it depends on what you want. The average investment for those types of things, is it a limited services, the full service, you know, what does it have, so I'm not going to see what The average investment is for these sizes because there's just too many variables.

Nichole Stohler

All right, here's another one. What is considered a good deal? Is it based on the cap rate or some other criteria?

Mike Stohler

Okay, what's considered a good deal is when I make some money, when I buy it, when I make some money during the time I'm holding it, and then I make a lot of money when I sell it. So that is a good deal. So when you look at cap rates, other criteria we look at, we do look at cap rates, you know, that's just something that gives you a snapshot. But cap rates are something that can kind of fill you depending on leverage and all those types of things. But what I can tell you is the reason why we moved out of the multifamily and to the hotel is because the cap rates for the multifamily were getting too tight, you know, four or 5% 6% what we're looking at when we use Our criterion and our driving factors for our hotels, we're looking at purchase cap rates at a minimum of eight and a half to 9%. The last hotel that we just purchased was a purchased cap rate, operating cap rate at 10.78%. Other criteria we look at, I don't want a hotel and you should not want a multifamily or whatever you're getting involved in this already at the top of the market that's already fixed up that's already performing at 100%. I want mismanagement. I want tip, let a bit means is it is where a flag hotel does a refresh does an update and therefore you need to change up the carpets, the beds, the furniture, which we call case goods, those types of things. I want something where there's a large VIP and the owner can't pay it or doesn't want to pay it. I look at something where I can What can I do to come in and achieve something greater? Or is the current owner not going after corporate contracts? Is it a mama pop situation where they're just kind of happy with the status quo? Those are the types of things that I look at Far, far, far and above than just a snapshot cap rate. I want to know that I can come in with my policies, my procedures, my expertise, and rock this hotel to where it's outperforming its competition, and then we sold a premium.

Nichole Stohler

Perfect. What is the average cash on cash returns for investors?

Mike Stohler

Okay. It depends again, so what type of agreement are you going into with the owner with the you know, the general partner if you're a limited partner, so there is no average it can be very large, it can be very small, you can be 50%. If you're going If you're if the investors putting in the money for the down payment, if they're putting in all the money, then you're going to want a bigger cash on cash return. If you are putting in \$100,000 into a \$10 million hotel, you can't expect that much of a cash return. One of the things we do with our syndications we do a waterfall with a preferred return. So that we have it's a known percentage that is based on internal rate of return and it will be a preferred return of you know could be depending on the deal Also, you can be a 12% preferred return it could be 15% preferred return and then you know, it's gravy after that, again Sorry everyone that there is no average cash on cash return.

Nichole Stohler

Now how do you structure the deal in terms of out of pocket investment and then the percentage of operating profit and percentage of equity when you sell the business among the operating partners? syndication and the investors syndicator.

Mike Stohler

Okay, this is a multi functional deep question. Let me start at the first. Again, you know each and to same thing with any type of investment multifamily or hotels. How much room Do I have to play with how good video are in my buying it at an 8% cap 11% cap? What kind of deal Am I getting? Okay, so that determines how much money I need from investors, you know, do I need not only the down payment, but do I need \$2 million for the PIP. So, how we structured depends on what I can afford or we can afford to give the investors but something that I like is the investors are doing me a favor when but I'm also doing the investors the favor, we're gaining an asset I get to manage it, and the investors get a preferred return and that's the way that I generally like to do our syndications. For instance, I could say and this could be there's 100 different scenarios with this. For instance, you could have a preferred return, waterfall syndication, that's based on an internal rate of return. What that means is, you give me \$50,000, you can be \$100,000, you give me \$300,000, whatever you put in, you get so many shares based on what you know, total that we needed for the down payment. If you if we needed a million dollars, you give me \$100,000, you get a 10% of that the investors share right? And then I will say that the investors get 15% preferred return that means that you're going to get your hundred thousand dollars back, plus 15% before I start making or the ownership or the general partners start making a lot of their money. So it's a preferred return, the investors get paid first. And we could say say that if you have \$500,000 to dole out that year, you could say that until we meet that 15% return, the investors will get 80%, the general partners will get 20%. And it stays that way until you exceed that 15%. You know, so it's complicated. That's why you get the interviews and get professionals involved with your team. But that's what that's what I like to do is is a IRR a waterfall is what it's called.

Nichole Stohler

And what's great about that model is that it's really pay for performance. So the investors are paid first, and you're paid based on the performance of incremental revenue, the cost that you've driven out of the hotel, etc.

Mike Stohler

Yeah, exactly. So if I want to get paid a decent amount, it is based on my performance. So if an investor should want this, you know, I talked to the investor say, hey, if I can extend seed, a 15% return. And I'm putting in all these hours, monitoring expenses, increasing revenue, everything that it needs to do, then the investor should say, yes, Mike, if you exceed 50%, then it flips I get for that year I get 80% they get 20%. Then the next year, it flips back. And so it's, it is it's 100% incentive, I don't make money for not doing anything. It's all based on my incentive to make sure the revenues increase.

Nichole Stohler

Now finally he asks, what are all the calculations slash terms, we're probably just going to cover the terms that I need to know from an investor's perspective around hotels.

Mike Stohler

Okay, so some terms Well, where do I start with different terms that are, I guess, that are different from multifamily? So we talked a lot about ADR which is our average daily rate. That's where we say that over the month we average a daily rate of 70 bucks a night or \$100 a night. We look at occupancy rates and the occupancy rates are very cyclical, especially here in Arizona. Nobody wants to come in Arizona what's 122 degrees, you know, fry an egg on the sidewalk, those type of things but spring training, the wintertime, occupancy rates goes up. That's why I love hotels, as opposed to multifamily where you're stuck with six month or 12 month leases. For instance, right now, in Arizona, the waste management open at the time of this recording is going on Therefore, our hotel ADR average daily rate has gone up 50% I can do that when if something is coming up. Something else we look at is what's called rev par. ref par It stands for the revenue Per available room, how much money what is the revenue that I'm making per available room that month or that you're, you know, that quarter whatever I want to calculate based on. When you have a flagged Hotel in this, it's very easy to do this. A lot of these things are automated. I can look at our star reports str St. Ours is a company that gives me every analytical type of data that I could ever want. It's almost like the track man in golf, it's almost too much data for my golf swing. But you can get a lot of information off of these reports. It looks at my ADR, my ref par, all those different type of multipliers, and it compares it to my competition set. Not every hotel in the area but if I'm in limited service, then it will take you know three or four the limited service hotels Within a few mile radius and I get to actually see on a daily basis, how I compared to those my competition, it's just a wonderful thing that you know, I went over every five to seven years of flag is going to want a refresh because they don't want you know, Marissa doesn't want to be look old and dingy. So they require things to be done. Some of them are welcome as owners, some of them not so welcome. It is what it is. And I will always say that having a branded franchises is much better than trying to go at it on your own.

Nichole Stohler

The only the other thing that you may want to mention is the revenue multiplier and some of the differences between interior and exterior.

Mike Stohler

Sure, yeah, when the price that you can get is you everyone kind of looks at in a while. Everyone looks at maybe the cap rates in the hotel industry, we kind of look at a what we call revenue multiplier. And that is very different from urban to country to small cities, big cities. If you look at a hotel commercial broker than they will know that in Phoenix, Arizona in the metropolitan area, hotels have this kind of this franchise this, you know, whether it's a interior corridor, which means that you access you go to the lobby, you get on the elevator, and all the rooms are in interior hallways, and exteriors you look You see, the older hotels, smaller cities, the countries, some warmer climates, Florida has a lot of these you'll see exterior corridors. People think of maybe the motels you know, the cheaper one star two star type things Like that

they have the extra year. So when you have an extra year older hotel, the revenue multiplier, which is I guess the definition that I should say is when you are looking at Hotel, we only care about the gross revenue in Hawaii, all these other things. It's the weather you not use a property management group or you haven't internal people. All that changes, all we care about is the gross revenue. And then based on where it's at, and the demographic then you will look at a This hotel is worth 4.3 times its growth or if it's a same city, extra record, or it may be 3.5 times gross multiplier. And that's kind of the one of the things we look at and the brokers will say, hey, it's in an area words have for multiplayer, and it's only for 3.2. So we know that there's probably some more Do it the hotel, but I'm interested because I know that, hey, if I use my policies, my procedures, my standards, I bet I can get that 3.2 up to that 4.0 and then decide, do I keep it? Do I flip it? Do I, you know, do whatever. But that's one of the things I look at is when I look at an underperforming asset that I want to buy, is I look at that gross multiplier.

Nichole Stohler

Perfect. So to the listener who sent this email and ask these questions. Thank you for doing that. I as I emailed back, I appreciate the opportunity to get into deeper questions and answer these details that we again, didn't think to really cover on a podcast episode. And I know a lot of the questions were a it depends answer, which is why Mike's going to go deeper with the workshop that he mentioned. So if you're interested in that, go sign up. On the show notes, and if you have other questions if you want to know about other topics, and it could be any type of topic that we cover like franchising, or it could be around buying businesses, etc. drop me a note. I am happy to hear from you and to help out or connect to you, depending on your question. So thanks so much for joining the show today, Mike.

Mike Stohler

It's been a pleasure as always, thank you.

Nichole Stohler

Thanks for tuning in to The Richer Geek Podcast. For today's show notes including links and resources, visit us at the richer geek calm. Don't forget to head over to iTunes, Google Play stitcher or wherever you get your podcasts and hit the subscribe button. help us spread the word by sharing with others who could benefit from listening and leave a rating and review that'll help us get the podcast in front of more people. I appreciate you. Thanks so much for listening.

Transcribed by <https://otter.ai>