

The Risks of “Desktop” Research

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In the market frenzy for hotel acquisitions, many buyers, or buyer’s financial partners, require due diligence to be performed by an independent consultant on a hotel asset, but they need the analysis to be done in one week. The good news is that they recognize the importance of an independent analysis; the bad news is that adequate time to do a reasonably good analysis is not permitted. In many cases, the buyer will spend sufficient time inspecting a hotel and dealing with brokers, but they wait until the last minute to retain the consultant to prepare independent projections and/or appraise the asset, which is generally required to close the deal. As a professional and independent consulting firm who does this type of work, we understand that a deal can be time sensitive. But there are many risks associated with performing “quick and dirty” analysis, aka desktop research as will be highlighted in this article.

Desktop versus Comprehensive Research

Today, reliable market data is available from independent sources such as Smith Travel Research and others. These sources can give an excellent picture of how the overall market has performed historically, by day, by week and by month. Combine this with Internet searches for recent articles and public records, and it’s a great place to begin any analysis. However, its important to keep in mind that these sources present data as averages to protect individual property confidentiality, and as we all know, averages are not necessarily representative of any one property’s performance. In fact, actual property performance may vary widely from the average. Moreover, this type of data does not allow a consultant to thoroughly understand the dynamics of a market. Desktop research does not allow you to ascertain the condition of a competitive hotel, or what its mix of business is, or the advantages/disadvantages of specific locations relevant to demand generators. These types of market insights can only be gained through comprehensive research and in-depth market investigation, which happens only when you visit the market and talk to the principal players in the industry. While details such as these may seem minor, in fact they can make a significant difference to the competitiveness of a particular property, and isn’t that the ultimate goal – to determine how well a property is performing, or will perform, relative to its competitive set, and how it will perform into the future? Answering this question through these two types of analyses is truly in the details.

The Risks of Desktop Research

Comprehensive market research will allow you to truly understand what is driving demand in a market. While you may be able to determine what the demand generators are in a given market through a desktop analysis, without talking to the market participants you may not discover that the area’s major employer is expanding, or worse yet, is leaving the market altogether. Interviews with demand generators will allow the consultant to understand why they are choosing a particular hotel, how often they cannot find a hotel to stay at, what brand they may have a corporate relationship with, how much meeting space they need each year, etc. Without speaking to directly to local hotel

operators and local government officials, you may not discover that a new property is rumored to be developed, and therefore not considered as an addition to supply. Any new hotel addition will affect the market performance and possibly the performance of the hotel being analyzed. These are just some of the details that comprehensive research can uncover that you risk missing with desktop research.

There are, however, instances when the quicker desktop research may be desirable. For instance, when the consulting firm has extensive or recent experience in particular market, a comprehensive study may be redundant. Ultimately, as with all major undertakings, it is critical to consider the objectives of the study. The truth is, desktop research may save you money, but the question is – Is saving \$10,000 upfront on a \$20 million deal worth the risk of missing potentially crucial information?

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