



2009 Newsletter - by Jack Spears

Deliver To:

LOSING OUR SECURITY

What makes you feel safe? What is the most important thing... that which is on your mind the most? I'll tell you what it's not. It is not wars, spiders, snakes, grizzly bears, guns, fires, blizzards, corporations, lawyers or politicians.

Although any of these contribute to making our lives more interesting and challenging, they are definitely not things we relate to security.

And now I'll tell you what it is. Age, health, money, retirement and God. And of these, "how much is enough" seems to be the one thing each of us is most focused on as we grow toward retirement. With 'Black October,' the presidential election, high gasoline prices and financial bailouts, we are all slapped awake, freshly wounded, recovering and paying very close attention to our financial situations and our futures.

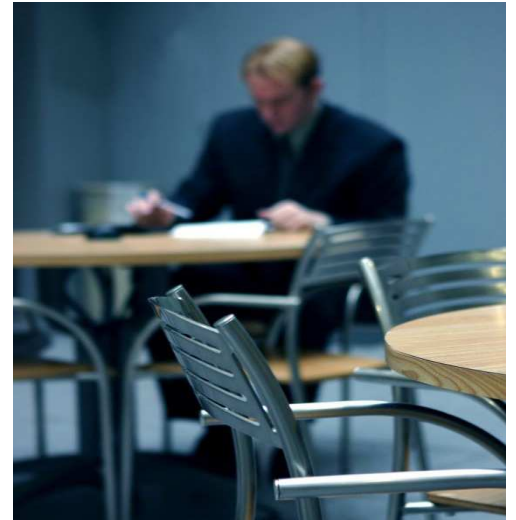
Ask the baby-boomer couple who have just turned sixty-six, their social security full retirement ages, who have built up a very comfortable stipend in mutual funds. This is their supplement to social security... enough to allow them to live comfortably for at least the next twenty years. "Nope, we can't retire. Forty percent of our savings has simply evaporated. Can we wait for our stocks to regain their value? How long will that take?"

Or talk to another couple who have allowed their home or homes to become their savings growth. Assuming these properties are debt free, they could borrow against their equity to purchase an annuity, a mutual fund stock and/or bond portfolio, or maybe negotiate a reverse mortgage. "Nope, the value of our home has decreased twenty to thirty percent. Lenders have become very cautious and conservative on how much we can get. Our borrowing power toward retirement has decreased substantially."

What to do, what to do???. Get angry? Blame former President Bush? Blame one or both of the political parties and the corrupt politicians? Summarily execute all of the greedy, dishonest corporate leaders? Argue that President Obama will whip out his campaign promises and put everything back to where it needs to be? Worry that nobody has enough magic?

Probably the only thing we can do is trust in whomever or whatever we truly believe in, having faith in the intrinsic underlying power of this great Country. Not a solution...certainly there are no clear or concise answers.

The only good news here? As far as I know hotel values in Western Montana have not decreased. They are no less attractive or saleable than they have been. We are still in



the three times gross income value range. Except for parts of the Midwest and Southeast, western Montana hotel prices are still quite reasonable. I did not write this article in an attempt to get you to have me sell your hotel. You should sell your hotel when it is best for you. I am just stating an economic reality.

I would love to hear your comments, advice and suggestions. As my retirement begins to appear just over the horizon, my plans and dreams could be impacted too. Give me your thoughts please via e-mail to:

jsc@lodgeprop.com

HOW OWNERS BECOME SELLERS

Choosing these Newsletter Topics is fun. I get to write about whatever I feel like, as long as it turns out to be somewhat educational and interesting. So let's see if I can adequately explain why owners sell their hotels. The most asked question by prospective buyers is "Why are they selling?" So this is obviously relevant and important.

Of course there are various reasons why an owner decides to sell. Divorce, death, poor health or some drastic change in physical abilities are sometimes the reason. But the most common are retirement, moving up to a larger hotel or changing focus into another business.

Several years ago I read a study showing that the average length of hotel ownership was seven years. I'm not sure that statistic would hold true today, but averages are only the approximate midrange of a bunch of ownership terms. I have sold many hotels for owners of over twenty years and I've sold hotels for several owners under five years.

The size and type of operation will typically have a direct bearing on how long someone owns a specific lodging property. Investors who become part of a group, owning several large franchised hotels, tend to stay much longer than small hotel owner-operators. Yet many small hotel owner-operators end up owning three or more hotel properties over the years, supervising the operations through individual managers.

Looking at the many different types and sizes of hotel operations will probably be the key to discovering 'how owners become sellers.' At one end we have the smaller, under forty rooms, owner-operated properties. These are often referred to as 'ma and pa' motels, inns, lodges, etc. These properties are often not flagged/franchised. They are typically owner-operated and include an owner's home or apartment. Husband and wife will do the lion's share of the administration, management, front desk and maintenance. Housekeepers will be hired and closely supervised. Outside contractors will be needed only for

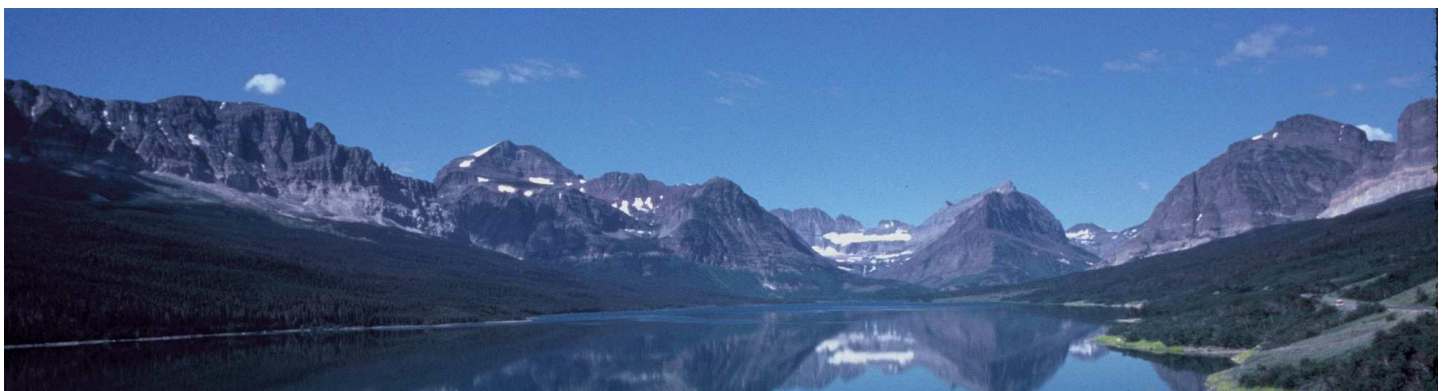
major repairs or improvements. In this way operating expenses can be held to a minimum, usually under fifty percent of the annual rooms gross income.

Mid-level hotel ownership would then be the forty to eighty room properties, sometimes with a restaurant, usually franchised with a national (flag) identity. With these lodging properties the owner or owners will typically be in a property management position, supervising the operation through a full time hotel manager or management couple.

These properties are usually owned by one to three people, with the individual owner or one of the partners acting as property manager. Operating expenses for this size and type are going to average sixty to seventy percent of annual rooms gross, including the single owner's or managing partner's compensation. Profit for the single owner or partnership will be what remains after all operating expenses, capital improvements and debt service.

Above this mid-level size range are the eighty to one hundred room or larger hotel and resort properties. There are actually two categories here. Eighty to one hundred twenty room properties, which are simply a larger version of the mid-level operation previously mentioned, and the larger full-service hotels ranging from one hundred twenty to several hundred rooms.

My thirty five years of hotel brokerage sales experience has been limited, by choice, to the smaller and mid-level lodging properties. Looking back over the years I find that over fifty percent of my hotel sales have been due to retirement. About twenty-five percent were a direct or indirect result of either a change in career focus or moving up to a larger lodging property, many times to a new geographical location. The remainder of my lodging sales had something to do with a change in family dynamics, such as illness, death, personal injury, divorce or one of several other life changes people encounter.



THE GOOD AND BAD OF 2008

O.J. finally got convicted of something, the American people elected a black president, Bush and his administration are out, gas prices finally came back down, and the University of Montana Grizzly Football Team fought through all the way to the National Championship.

On the other side of the ledger, we experienced Black October, complete with the (was that billions or trillions?) Emergency Economic Stabilization Act. The war in Iraq does not seem to be improving or diminishing, while more politicians get caught with their hand in the till or their pants around their ankles. General Motors, Ford and Chrysler refuse to allow any blame to land upon their shoulders for their current financial problems. Iran and North Korea continue to develop and play with nuclear weapons, Russia crushes one of its little satellites for not walking the line and China continues to grow and pollute. More people than we can possibly count enter this Country illegally across our southern borders to further impact the struggling economy.

Are we outraged? Fed up? Screaming bloody murder? I



am. This is the United States of America, not the Titanic. I agree with what Lee Iacocca has recently said. "Where are the leaders? Where is honesty and integrity?"

Where are the people of character, courage, conviction and common sense? Can we only react, hunker down and cross our fingers? Have we forgotten who we are and where we've been? Where is the fire, the passion, the creativity? We need to stop standing on the sidelines hoping that our team will turn this thing around. We need to cut out the crap, the indecisiveness and laziness! Let's all get to work, tell them we've had enough. No more. Get it right, and do it now."

My question is this, "If our Federal Government continues to bailout companies who have taken unreasonable or bad risks that did not work out, to underpin an already struggling economy, where will it all end? Is this still a free enterprise system, where people and businesses will succeed, get by or simply fail, or are we moving toward socialism?"

At least one national economist, Ken Harwood, is confident that our economic contraction will end in 2009, while the stock market begins its rebound and inflation remains low. The recession actually started at the end of 2007. The travel industry nationwide was down about 10% overall for 2008, and will probably be down again this year. 2010 will be the year we all begin to feel and experience the economic recovery...

NATIONAL FLAG WESTERN MONTANA



Central Downtown Business Location
Area's Major Intersection of State Highways

Ninety Eight Rooms
Four Suites + Forty-Three Doubles + Fifty-One Singles
Two Diamond AAA

Full Tub and Shower Bathrooms
Hairdryers, Coffee Makers, Built-in Wall HVAC Units,
Wireless Internet
Exterior and Interior Corridors

NEW 2,200 Sq. Ft. Guest Lobby
with Buffet Breakfast Area and Lounge

Spacious Two - Bedroom Apartment
Fitness Room & Jacuzzi
Full Commercial Laundry

Built In 1962 and 1980
Three Concrete Masonry Two-Story Buildings
Totaling 45,300 Sq. Ft
Approximately 1.6 Acres

New Front Landscaping, Awnings & Reader board Sign
Freshly Seal Coated Asphalt Parking Area

2007 Rooms Income Was \$ 981,002

2008 Rooms Income Was \$1,084,049
(\$67 Adr @ 45% Occ.)

Net Operating Income \$408,028

ASKING \$3,500,000

SHOWN BY APPOINTMENT ONLY

2008 WESTERN MONTANA OCCUPANCIES

Through January 2009, in talking with about thirty western Montana lodging property owners, I estimate that occupancy for 2008 was DOWN BETWEEN TEN AND TWENTY PERCENT.

SUBPRIME LOANS & SECURITIES

Several years ago, under new lending regulations and guidelines promulgated under the Carter Administration, slowed by the Reagan Administration, then fast-tracked under the Clinton Administration, Mortgage Brokers (these are the people who sell and package home loans, mostly via the internet) began selling and packaging bad loans.

What exactly is a subprime loan? Well, how about no money down and the home buyer applicants verify their own income? In other words, nothing invested and nobody really knows if the buyer can actually afford the monthly payments, not to mention taxes and insurance.

These 'easy or no qualify' loans were attractive in other ways. The interest rate would begin at three or four percent. At 3% that's only \$843.21 for a \$200,000 home purchase mortgage over thirty years. In most regions of our nation, about the same or less than rent. Of course, these were ARMs - adjustable rate mortgages - with the potential of much higher rates and payments.

The programs were sincerely and honorably intended for lower and middle class home buyers struggling to improve themselves. By creating these vehicles to home ownership, they would realize a great built-in savings and asset appreciation plan as their homes increased in value. Worst of all, the Mortgage Brokers were paid the instant a bank or other type of home lender funded the loan. After that the Mortgage Broker had absolutely no responsibility or stake in the matter.

Here is what you might be thinking, "wasn't this a great big risk for these lenders?" Not really, because as soon as the lenders accumulated a significant number of these subprime loans, they were packaged together with ALL of that lenders' home loans and sold to Wall Street. These super smart Wall Street Investment Bankers created securities to sell institutional investors using these packaged loans as collateral. They even received AAA to BBB ratings on most of these securities for credibility and insurance.

Insurance companies, small towns, school boards, pension funds, i.e. institutional clients, loved the ratings and insurability, so these securities were gobbled up quickly and continuously. Nobody would buy the worst

of these bad loan packages, with no ratings, so the investment bankers held these in-house, paying themselves high rates of interest. They even set up Cayman Island companies to hold ownership of these securities so they wouldn't need to show anything negative on their balance sheets.

As even the best AAA and BBB rated/insured securities began to fail, due to loans defaulting all over the map, the institutional investors, upon not receiving their interest payments, began to scream bloody murder. As this house of cards continued to crumble, it turned out that the insurers did not have enough money to cover the horrific and growing losses.

Yes, of course our Federal Government knew what was being done. They had created the guidelines and then encouraged the use of these types of loans. Nothing illegal was actually taking place. Our Government would simply dig deep into the ever increasing debt coffers and pony up the bail outs.

We have the mortgage brokers, Wall Street Investment Bankers, rating companies and our Government to blame. How about ourselves? Millions of people believed they could get something for nothing by creating debt they could not repay. They were encouraged to eat all the candy in the store. Everyone shares responsibility for this huge stomach and headache we now have.

YOUR EMAIL ADDRESS PLEASE

My goal is to streamline this newsletter into an e-mail format. This will allow me to send and receive information to and from western Montana hotel owners **faster and more consistently.**

Please sign up to receive future newsletters, hotels for sale, comparable sales and industry information by **submitting your e-mail address to:**
www.LodgeProp.com/Newsletters.htm

I WILL NOT CONTINUE
SNAIL-MAILING INTO THE FUTURE.

THANK YOU

I Sincerely Hope 2009 is Your Most
Happy, Healthy and Successful Year

Jack Spears and Jack Spears Companies have been active and successful in selling hotels, motels, inns and resorts since 1973.

We have also successfully and effectively operated lodging properties since 1988.



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