



Open-Bid Auctions vs. Sealed-Bid Sales

Our team of hotel investment sales professionals is often asked about options that an owner of a severely impaired hotel or resort might employ when a sale is required due to market dynamics such as those in today's economic environment. The seller may be the outright owner or borrower looking to exit the asset swiftly, or it could be the lender that has been forced to take control of the hotel and needs to limit operating losses by disposing of the asset quickly.

In many cases, a challenged property can be liquidated through an **open-bid auction** or a **sealed-bid sale** process. Liquidation processes like these are most suitable when an asset is particularly distressed and difficult to value, but will likely appeal to a broad array of investors. In other words, the value immediately becomes what a party is willing to pay and does not necessarily reflect the price the property might generally achieve under normal market conditions.

This article articulates some of the features, advantages and disadvantages of both methods.

Introduction Generally speaking, the more common open-bid auction, typically employed in the sale of art or classic cars, creates competition among prospective purchasers as bids openly ascend until the highest bidder remains. The potential purchasers are not as concerned about the risk of potentially overbidding since they have the benefit of gauging how competitors are valuing the same asset. One of the disadvantages of an auction when selling hotel real estate, however, is that it does not generally provide the seller the opportunity to negotiate back and forth with potential buyers on transaction terms.

Given the challenges and limitations imposed by a formal auction process and the need to exit properties in a timely manner, sellers may make greater use of sealed-bid sales than ever before for distressed hotel dispositions. A sealed-bid sale gives potential buyers the opportunity to submit their bid by a declared deadline. On the stated date, all of the bids are evaluated, and the highest bidder would typically be declared the "winning" purchaser. This method induces the buyer to submit a higher offer, yet it allows for a good amount of communication between the seller and bidders. Sealed-bid sales help the seller ensure that a lodging asset is not being sold at too low a price or at terms overly onerous to the seller.



LODGING CRISIS STRATEGIES

A SERVICE OF THE PLASENCIA GROUP

FEATURES & BENEFITS

Length of Process



Open-Bid Auction:

A major benefit of an auction is that it is generally the most expedient option to determine a distressed-condition value and complete a hotel disposition in an accelerated manner. However, optional, sequential rounds of bidding may extend the disposition timeline.



Sealed-Bid Sale:

Directly marketed and negotiated sealed-bid sales can have a date-certain ending, by employing a specified call for offers date, thus providing certainty of closure to the transaction process. Simultaneous bidding makes for an expedited hotel sale process, though the seller may opt to state at the outset that there will be a best and final round of bids in the process.

One key merit of a sealed-bid sale is that it allows for a buyer and seller to spend more time discussing the transaction and ironing out possible hurdles before the buyer submits a final bid. In other words, an educated investor makes for an excellent offeror.



LODGING CRISIS STRATEGIES

A SERVICE OF THE PLASENCIA GROUP

FEATURES & BENEFITS

Pricing



Open-Bid Auction:

By their very nature, lodging properties tend to have many more moving parts than other asset classes. The precipitous nature of the auction process often leaves buyers with limited time to (a) inspect a hotel or resort, (b) complete diligence, (c) decide if they want it, and (d) close the transaction. Because of these circumstances, buyers at auctions tend to be much more risk-averse and value-oriented, and less apt to push pricing.



Sealed-Bid Sale:

Sealed-bid sales create the opportunity for the seller to accept an above-market offer to take the hotel or resort off the market. The possibility of a preemptive offer may also be considered, especially if such an offer exceeds the seller's internal "reserve" or "strike" price and deal terms.

The seller retains the ability to bargain with a buyer pre-bid in a sealed-bid process, resulting in a higher price by, for example, making an offer or counteroffer to one buyer that depends on information learned from other buyers, including other remuneration in addition to purchase price. It also allows the seller the prerogative of discriminating among buyer bids.



LODGING CRISIS STRATEGIES

A SERVICE OF THE PLASENCIA GROUP

FEATURES & BENEFITS

Number of Bidders



Open-Bid Auction:

There is always a chance that an open auction may generate very few, if any, interested bidders, thereby negatively impacting the auction process itself, the value of the asset and earning the property a “shop-worn” stigma.



Sealed-Bid Sale:

Similar to an open-bid auction, the sealed-bid sale offers no guarantee of a certain number of bidders for any given asset. The beauty of a sealed-bid process, however, is that the actual number of bidders (competitors) is not disclosed. An investment advisor can offer advice on qualified, active investors who are seeking assets matching the property’s criteria, thereby allowing the seller to make an educated buyer selection.



FEATURES & BENEFITS

Competition Among Bidders



Open-Bid Auction:

Since bidders' names are typically made public in auctions, should a larger institutional investor opt to participate, it may scare away smaller, private bidders who perceive that they may not have the financial wherewithal or staying power to aggressively compete at auction.



Sealed-Bid Sale:

One of the many benefits of a sealed-bid sale is that bidders aren't allowed to compare their bids against a potentially lower figure from another party, as is often the case in an open auction. The confidential nature of a sealed-bid sale motivates offerors to submit higher prices earlier in the process. Similarly, this method provides for greater privacy for both the seller and offerors.

It is important to note that in a sealed bid sale there are scenarios in which the highest bidder may not necessarily be selected by the seller. If the highest offer does not meet all of the seller's transaction terms and requirements, the seller has the option to move down the list to the next highest bidders, possibly with better overall non-monetary terms.



LODGING CRISIS STRATEGIES

A SERVICE OF THE PLASENCIA GROUP

FEATURES & BENEFITS

Negotiation & Offer Terms



Open-Bid Auction:

An auction does not provide for the opportunity to negotiate, which may result in better terms and conditions for the seller. Additionally, a non-refundable deposit is usually required by auctioneers.



Sealed-Bid Sale:

Unlike an auction, a sealed-bid sale allows for negotiations between the seller and one or more offerors, aimed at refining certain terms of the offer in advance of the bid submission.

Sealed-bid sales allow the seller and buyer to collaborate on deal terms that are typically advantageous to the seller. Negotiated items may include higher pricing, shorter closing period, higher non-refundable deposit, the seller's participation in the transaction, possibly in the form of some ownership interest, and other non-monetary remuneration.



LODGING CRISIS STRATEGIES

A SERVICE OF THE PLENENCIA GROUP

FEATURES & BENEFITS

Seller's Power



Open-Bid Auction:

Auctions could potentially forfeit a seller's negotiating power, possibly including the ability to withdraw the property from sale.



Sealed-Bid Sale:

Sealed-bid sales provide many of the benefits of an auction, but tend to tilt the scales toward the seller in terms of controlling the process by not relinquishing proprietary strategies and information. Retaining the ability to bargain always gives the seller the upper hand.



LODGING CRISIS STRATEGIES

A SERVICE OF THE PLENENCIA GROUP

FEATURES & BENEFITS

Process



Open-Bid Auction:

Websites specialized for commercial real estate auctions, such as Ten-X.com, are often employed to manage the process for open-bid auctions, from providing investment information to executing confidentiality agreements to collecting bids on the auction date.



Sealed-Bid Sale:

The offer submission format for the sealed-bid sale is ultimately up to the seller. The seller may request bids to be physically and discreetly submitted or the seller may designate a delivery email address for bids. In either case, to maintain the integrity of the process, the seller typically would not open any bids until the specified bid date. For this reason, sellers often rely on an intermediary, usually the investment advisor, to orchestrate the sealed bid process by collecting, compiling and delivering private bids to the seller on the stated bid date. At that time, it is up to the seller whether to announce the winning bid publicly.



LODGING CRISIS STRATEGIES

A SERVICE OF THE PLASENCIA GROUP

In Summary

We hope this information is helpful to you in considering the marketing processes available to you when considering an accelerated disposition of a distressed asset. The Plasencia Group has conducted dozens of sealed bid sales on behalf of lenders, servicers and courts. Please do not hesitate to contact any member of our team to discuss your portfolio and potential approaches for selling your assets to the extensive list of active investors we're speaking to regularly.



THE PLASENCIA GROUP
Passion. Access. Certainty.

Local Knowledge. National Presence. Exclusively Hospitality.

Contact us today if our experienced advisory team can assist you in evaluating your current portfolio and strategizing for the weeks and months ahead. We look forward to the opportunity to serve you.

(813) 932-1234
info@tpghotels.com
tpghotels.com