Deal Pricing Analysis℠

An Overview By Bernice T. Dowell

A Deal Pricing Analysis (DPA) is essentially what it says: an analysis of how the deal was priced, using all of the investment criteria the buyer used to determine the price in the marketplace but modeling it in greater detail than is necessary for the dealmaker.

Basically, the model starts with the discounted cash flow pro forma and determines from that the “implied” prices for each class of assets that are transacting. In other words, the expected cash flows from operations, after a reserve for replacement management fee and franchise fee, plus the proceeds of sale at the end of the holding period represent the return on and return of investment in each of these assets classes (real estate, tangible personal property and intangible personal property) working together. That is how hotel deals are priced. A deal pricing analysis uses this information to model each asset class similarly such that the sum of the parts equals the whole and the buyer now has better information to complete the closing documents and record the transaction.

Dealmakers do not truly understand how much value can be created from taking this step. Dealmakers are not managing the assets after the fact. They are focused on getting the deal to the closing table. They do not want to embrace one more item to negotiate with the seller and to “complicate” closing. Asset managers and property tax managers learn time and time again that post-closing they end up with an asset that is not making pro forma because the real-estate taxes are double what were expected and appeals after the fact are impossible to win. The assessor has paperwork, signed under oath, stating what was paid for the real estate. Trying to make the argument after the fact that that was not really the price of the real estate is futile, and savvy assessors are going to hang their hat on the number that transfer tax was calculated from and the number that was put on the deed.

Real-estate tax appeals are expensive. Often a consultant must be hired, charging 20-25% of any savings achieved, and in the meantime you are overpaying the taxes waiting for refunds of which you will then really only get 75% after the fee is paid. If the dealmaker and closing attorneys had simply taken the time to allocate the price across the three major classes of assets that transacted, they would have saved transfer taxes immediately and post-closing already would have managed the prospective real-estate taxes and improved cash flow for Year One.

Buyers beware: Take the time to allocate the price to real estate, tangible personal property and intangible personal property. The benefits greatly outweigh the time and expense to include this step in the closing process.

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