

Martin Hill Inn, Portsmouth, NH

Located within walking distance of downtown Portsmouth, the Martin Hill Inn is a truly unique property. It is extremely rare to find a property that has such historical charm, structural and financial integrity, and a unique market position. Originally opened in 1978, the innkeepers, Jane and Paul Harnden, have developed a business that offers great comfort, excellent service, and sound management.

Inn Profile

The Martin Hill Inn Bed and Breakfast actually consists of two period buildings. The Main House, circa 1815, contains three guestrooms tastefully furnished in period antiques including queen size canopy or four-poster beds. The Guest House, circa 1850, contains an additional four guestrooms, and is connected to the Main House via a short, flower-lined, brick path. Each room has its own unique character, and many have private sitting areas. All have private baths. The grounds are wonderfully landscaped and include a lush water garden, sitting areas, and paths bordered with flowers. Guests have their own off-street parking for eight autos that adjoins the gardens. (There is a separate parking area for the innkeepers for two autos.) The inn is within walking distance of Portsmouth's varied restaurants, shops and historical attractions.

The buildings are in marvelous condition. Throughout their twenty year ownership, the Harndens have given great care to the condition and appearance of this inn. The guestrooms are a blend of 19th century charm with 21st century amenities. There is a consistent theme of freshness throughout the property from the well-painted exterior, immaculate hallways and rooms, manicured gardens, a good functional kitchen, new wiring, central A/C in the Guest House, and extremely well organized basements.

On a side note, virtually all of the furnishings are included. Although a precise appraisal has not been completed, there is significant value to numerous period antiques including an elegant dining table for 10 people.

Innkeeper's Quarters

Located on the south side of the Main House, the innkeeper's quarters offers 900 square feet of privacy and space. The living space is on the ground floor and overlooks the backyard. It's heated by a gas fireplace. The second floor houses a very large master bedroom with bath, plus office space and storage. The quarters are in a separate wing yet offer a balance of privacy with easy accessibility to the guests.

Odds and Ends

The third floor of the Guest House contains a small self-contained apartment. The present innkeepers have not used this space for any commercial purpose. Potentially, it could be used for an in-law apartment, summer staff housing, rental income or additional guestrooms. A second means of egress would need to be created.

The most popular guestrooms are the Master Bedroom and the Greenhouse. The kitchen has a six burner stove and two dishwashers. There is a separate laundry room with washer and dryer. The heat is generated by gas, and is steam heat in the Main House and forced hot air in the Guest House. The burner in the Main House is just two years old. The A/C in the Guest House is centralized while the Main House has individual window units.

Evaluating the Business

When judging any lodging establishment, there are two criteria that define quality; Average Daily Rates and Occupancy Rates.

Since the guestrooms vary in size and uniqueness, prices vary from \$125-\$145/night; double occupancy. By local standards, these prices are low. (A comparison with the other four inns within Portsmouth, the Martin Hill Inn offers the best value.)

After four years of constant room rates, the room prices were finally raised this year. ADRs (Average Daily Rates) for 2003 was just \$117. Future ADRs are expected to rise significantly.

Over the last four years, the inn has sold the following number of rooms.

Year	Number of Rooms Sold	Numbers of Days Closed
2000	1539	29
2001	1412	48
2002	1370	51
2003	1319	66

When we calculate occupancy rates, for the purpose of comparison, we base our figures upon a 365 day year. With this in mind, the inn generated the following rates.

2000	60%
2001	55%
2002	54%
2003	52%

It is essential to note that the innkeepers have spent considerable time away from the property even during the summer season. This has influenced overall occupancy rates and gross income.

Expenses

The Martin Hill Inn is a very efficiently run business. Since the number of guestrooms is not large, it is easier to manage without outside staffing. Expenses are 36-40 % of gross income. This creates a very healthy net operating income (NOI) for debt service and innkeepers salaries/profit.

Satisfying Debt and Capitalization Rate

As with any business, there has to be a logic to the financials in terms of satisfying ones debt and generating a satisfactory capitalization rate.

Capitalization Rate = NOI/ Price

10.3%= \$108,000/\$1,050,000

Debt Service Ratio = NOI/Annual Mortgage Amount

With a price of \$1,050,000 and a downpayment of 20%, the following scenario applies;

Price	\$1,050,000
Downpayment	\$210,000
Balance for Mortgage	\$840,000

With current commercial interest rates running between 6 ½ to 7 %, for the purpose of calculations, we will use a 6 ¾ % rate for a 25 year amortization period. The monthly amount equates to approximately \$5448 or \$65,380 annually.

1.65% = \$108,000 / \$65,380

A debt to service ratio of 1.65 % is very healthy. Banks often require a 1.25-1.3 ratio.

Improving the Business

A standard annual occupancy rate for the Portsmouth area is approximately 60%. The Martin Hill Inn is not a standard inn. When evaluating its uniqueness in the market place, there is no true competition. When it comes to value, service, amenities, and location, the Martin Hill Inn is second to none. This as a marketing tool needs to be expanded upon.

Presently, the Martin Hill Inn is in very capable hands. There are not glaring weaknesses in terms of management, cost controls, marketing, and maintenance. There are several options, however, to improve gross income and NOI.

Diversify the Market Base

Presently, virtually every guest comes for the purpose of recreation and relaxation. In a community such as Portsmouth, people come for a multitude of reasons including business. Industry data of urban-based inns has shown that business related clientele can occupy 40-60% of the total rooms sold. It does require modifying the room interiors somewhat by adding phone lines, work space/desks, and at times, televisions. It is recommended to adapt these amenities to a few rooms to test the market place.

(On a side note, we keep data on various inns through out the Northeast. One B&B in a nearby town generates 60% of their income via business guests. In NYC and San Jose that figure jumps to 65-80%.)

High End Rooms/ADRs

The growth in the B&B industry has been towards more costly, high end rooms. Portsmouth in particular, has extremely high ADRs when compared to other regions within New Hampshire. The trend in New England has emphasized amenities for relaxation including gas fireplaces and jacuzzis. The guestrooms within the Martin Hill Inn are spacious and can accommodate these improvements. Again, it is recommended to adapt these changes to a few rooms to satisfy a more diversified, upscale marketplace. The ADR rate increase is \$25/night per amenity, and these rooms are often the first to be filled.

Third Floor Apartment

There are all sorts of options with this space; all with commercial applications. Since each guestroom generates over \$20,000 per year in income, one can easily see how this space can influence the bottom line and business value.

Families

Presently, the inn does not accommodate families. The inn is elegant and doesn't cater well to younger children. It is crucial to note, however, that couples traveling with children can generate up to 15% of an inn's income. It is worthy of consideration to adapt one guestroom, especially one with a

sitting area, into a more family friendly environment that won't interfere with the other guests.

Year Round Aggressiveness

As you can see from the occupancy data, the innkeepers have lost considerable income by being closed or away from the property. This includes special family time in July. Portsmouth maintains a year-round demand for rooms. Future innkeepers can easily tap into that demand by being open 365 days a year.

Marketing Strategies

The inn is aggressively marketed via the web. With a three star rating with AAA, this also acts as a strong marketing tool. The innkeepers keep very precise data on their marketing success. One area that could be improved upon slightly is with repeat guests. Inns in dynamic locations such as Portsmouth can generate between 40-65% of their room nights sold via repeats. It is recommended to establish a repeat guest program to initiate incentives for a return visit.

Summary

On a personal note, I have the privilege to visit many inns through out New England. I often depart with a feeling that certain business and personal ingredients are lacking. That is not the case with the Martin Hill Inn. From a prospective buyers' perspective, it offers a wonderful blend of quality location, profitable financials, structural integrity, and solid, consistent management.

For a personal tour, please see their website; www.martinhillinn.com.

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