White Paper:

A Guide to Equipment Lease Financing for Hotels

(Updated for 2020)

Equipment Lease Financing For Hotels*

Hotels are constantly changing, upgrading, and growing. Capital is needed for everything including acquiring the equipment that is used by the staff and guests, furniture and fixtures for the rooms, leasing the hotel property, and eventually acquiring an additional hotel property. Unlike the financing methods involved in operations financing or real estate financing, the issues surrounding equipment lease financing (which includes everything from furniture and fixtures to golf and spa equipment) tend to be different. And hotels have been significantly underserved in this area.

The purpose of this whitepaper is to provide information about equipment lease financing solutions. We will discuss general lease terms, best practices, specific challenges for hotels, how to avoid common pitfalls, and how to achieve best results.

Current Challenges for Hotels

The number of hotels continue to grow. The United States currently has 52,000+ hotel properties, with over 5,000,000 guestrooms, with more than 1.1 billion guests' nights annually. The hotel industry is extremely competitive with home rentals making the space much more saturated. The top hotel companies like Marriott, Hilton, and Best Western have to continuously compete with companies like Airbnb, VRBO, and Flipkey. With the entrance of these home rental companies into the market, hotels must provide a higher level of service to obtain maximum occupancy.

The saturation of the industry makes the appearance of the hotel and the quality of the furniture and equipment pivotal. Technology, security, furniture, and equipment are evolving at rapid rates, and having the up-to-date equipment can differentiate a hotel from its competitors, and even home rental companies. A large number of hotels in the United States already utilize equipment lease financing to fund certain capital expenditures and manage budgets. However, choosing the right equipment lease finance solutions and the right partner first requires an understanding of certain lease financing terms and an understanding of industry best practices.

Equipment Lease Terms

Equipment lease finance agreements contain terms that must be analyzed as part of the lease for your hotel. The following basic terms are found in all equipment lease finance agreements:

Cost of the equipment:	This is the cost of the equipment supplied by the equipment vendor, including fees and expenses associated with the equipment such as delivery, installation, sales and use taxes if applicable, etc.
Lease term:	The equipment lease finance term typically ranges from 3 to 5 years.

*We're good at this.

End-of-lease purchase option:	Equipment lease finance agreements can be structured as a lease-to-own finance agreement with a one dollar or nominal purchase option, or a lease rental agreement with a fair market value purchase option. There are benefits to both structures. Different situations discussed below will determine which type of lease is most appropriate.
Lease payment:	Lease payments will reflect the cost and type of the equipment, the term of the lease finance agreement, the end-of-lease purchase option, and the creditworthiness of the hotel organization borrower. It is important to fully understand the implied interest rate and other financial terms of the lease.
Payment frequency:	Lease payments can be made monthly, quarterly, semi-annually or annually.
Advance rentals, security: deposits, down payments	These are sometimes required, but rarely, and most often with hotels that are not well established.
Fees:	Some finance companies require payment of fees, such as documentation and equipment inspection fees.
Taxes:	Most states require businesses to pay sales and use taxes on the lease payment, just as sales taxes would be paid on a business' purchase of equipment. Also, annual personal property taxes may be assessed by the county and required under the lease.

Best Practices

Selecting Equipment	Only you can determine the best equipment for your hotel. With financing from an independent finance company, you can finance any type of hotel equipment supplied by any manufacturer or vendor. The finance company should be willing to provide lease financing for any equipment you select. Most manufacturers will provide you with a financing proposal, but typically it is contingent on acquiring that manufacturer's equipment. The manufacturer's captive lease finance company will not allow your hotel to combine multiple vendor equipment purchases.
Working with the Equipment Vendor	Equipment vendors are, of course, concerned about getting paid for the equipment, and when they will get paid. If the hotel is not perceived as being creditworthy because it is a newer hotel or for some other reason, equipment vendors will tend not to provide customary equipment purchase discounts. With equipment lease financing, the equipment vendor relies on the finance company for payment, especially if the hotel is pre-approved. In effect the equipment vendor will receive cash on or before delivery, and purchase discounts offered to the hotel should reflect these favorable payment terms.

Structuring the Agreement

Make sure the equipment lease finance proposal contains terms that are appropriate for your hotel. You will be able to select the term, the payment frequency (monthly, quarterly, semi-annually or annually), a down payment amount, if any, and the end-of-lease purchase option. Any costs and fees should be clearly spelled out in the equipment lease finance proposal.

Selecting an Appropriate End-of-lease Purchase Option

Equipment lease financing is appropriate both for assets that are likely to be refreshed on a regular basis and for assets that your hotel will want to own. It depends on the type of equipment and how you expect to use the equipment. For example, hotel furniture and fixtures tend to have a longer useful life than other types of hotel equipment. Some hotels prefer to lease hotel furniture under a lease with a one dollar or "nominal" purchase option at the end of the lease. Financing IT equipment has become increasingly popular as organizations recognize the benefits of regular technology upgrades. Since IT equipment is a rapidly depreciating asset, and the costs of maintaining old equipment is high, financing IT equipment under an agreement with a fair market value purchase option may be appropriate. This structure enables hotels to preserve additional cash since the lease payment will be lower.

Securing Credit Approval

Securing credit approval will depend on the creditworthiness of the hotel organization, including how well the hotel financial information is organized. Unless the lease financing is for a small amount, you should expect the equipment finance company to perform due diligence on your hotel and to request information. You should organize financial statements from prior years, provide a current interim financial statement through the latest month, bank statements, the current year budget and projections, and a report showing performance to budget.

Financial information is not the only information that will help you secure approval. A good description of the hotel, room occupancy, growth, history, plans and historical academic performance are also very important. Explain why the equipment is being acquired and how the equipment will be used.

For newer hotels, often there isn't much information available. Here, it is best to provide any and all financial information that is available, and then supplement the financial information with other information about the hotel as above. Has the hotel management group managed hotels previously? How many hotels does the hotel management group have in their portfolio? What is the hotel's occupancy? Is the hotel seasonal? There are many other non-financial factors that are important in securing credit approval.

Selecting a Financing Partner	Like many industries, the equipment lease financing industry is comprised of thousands of competitors – and no two companies are the same. The company's business practices and track record are often as important to the economics as the monthly payment. Be sure to check references and talk with customers who have completed leases with the company you are considering.

FAQs

What is equipment lease financing?	Equipment lease financing is a process by which a firm (the lessor) provides financing for new or used equipment to another party (the lessee). Lease financing preserves cash flow and may offer tax advantages. Additionally, it helps hotels maintain up-to-date equipment and good credit.
What kind of equipment can be leased?	Hotels can lease finance all of the capital equipment used in the hotel's activities, including, but not limited to, computers, software, restaurant equipment, spa equipment, golf maintenance equipment, hotel room furniture, cameras and security equipment, copiers, athletic equipment, turf, shuttles and buses, phone and paging systems, and HVAC.
What types of leases are available?	The most common types of leases are fair market value (FMV) (also called a true lease) and dollar buyout leases (also called a capital lease). Hotels that choose to work with an FMV lease often obtain and lease equipment that quickly depreciates in value. Dollar buyout leases are ideal for those who plan on keeping the equipment at the end of the lease term, and for equipment with a long useful life. The type of lease you select will often depend on the type of equipment, and how you plan to use it.
What are the most typical lease terms?	Lease finance terms range from 12-60 months. The most typical lease finance term is 36 or 60 months (three or five years).
How are lease rates determined?	Lease finance rates will depend on the hotel's credit and operating history, the cost and type of equipment, lease finance term and the desired lease finance structure. Lease finance rates are fixed when you enter into the lease. Lease finance rates don't fluctuate with interest rate changes.
How to get started with an equipment lease?	We try to simplify the equipment lease financing process. Supply us with a copy of the vendor's equipment quotes so we know what you want to finance, as well as information about your hotel. One of our hospitality equipment lease financing specialists will contact you to help you structure the lease. We may ask you for additional financial information, such as financial statements, budgets, projections, bank statements, etc.

How long does it take?	Credit approval can be completed within a day. If the lease finance structure is complex it may take longer. Funding typically occurs within 24-48 hours after delivery of the equipment and your confirmation that the equipment you received from the vendor is complete and acceptable.
What are the differences between leasing and paying cash?	Lease financing allows your hotel to spread payment for equipment across multiple budget periods. Lease financing may also allow certain tax advantages for your hotel.
How does leasing affect my cash flow?	You will find lease financing has a positive impact on your cash flow and budget because you are not paying for the equipment in one lump sum. By selecting a lease, hotels can conserve cash for other uses. Lease financing also allows you to forecast cash requirements more accurately as you know the amount and number of lease payments you will owe over the lease period. Lease financing provides predictability for budgets and planning.
What is a lease rate factor?	The lease rate factor is equal to the periodic lease payment divided by the leased equipment cost. It is not an interest rate. For example, a monthly lease rate factor of .0301 means that for every $100.00 of leased equipment cost, the monthly lease payment will be $3.01. Extending this example, for $100,000.00 of leased equipment cost, the monthly lease payment will be $3,010.00. Lease rate factors are used for ease in estimating monthly lease costs, budgeting and planning, when you are working with a quote or estimate, and the final leased equipment cost has not been determined.
What are the differences between equipment lease financing and bank loans?	Getting approved for a bank loan can take weeks, even when you need capital right away. Plus, your hotel may need to provide large down payments and collateral. Most bank loans are short-term 12 month loans (unless for real estate). These should be used for operating purposes, not for 3 to 5 year term leases and loans.
How does lease financing look to the hotel's existing bank lender?	Most banks don't offer equipment lease financing solutions. Since the lease financing will likely not impact bank loan covenants and credit exposure, your bank often will be glad the hotel was able to raise capital independently.
How flexible is lease financing?	Equipment lease finance companies offer flexible terms which allow you to customize your lease financing to a program that will fit your specific needs and requirements – cash flow, budget, transaction structure, cyclical fluctuations, hotel funding, etc. There are many options to choose from when determining lease financing for your equipment. While lease financing is the best option for many, it is not the solution for everyone.

What happens at the end of the lease term?	Dollar buyout leases allow the option of purchasing the equipment for $1 once the lease term expires. In this case, no notice of your intent to purchase is required, since the $1 purchase price is "nominal" and won't actually be collected. Fair market value leases typically allow several options at the end of your term. Your first option is to return the equipment if your hotel has no more use for it. If you want to continue using the equipment without purchasing it, you can extend the lease agreement. Or, you can purchase the equipment for its fair market value at the end of the lease.
Why choose TEQlease Hospitality Equipment Finance?	TEQlease Hospitality Equipment Finance has been providing equipment lease financing solutions to hotels for many years. We are regarded as one of the best hospitality equipment lease financing companies in the United States. Our hospitality industry specialists have years of experience in equipment lease financing. They will present you with the best financing options for your hotel. We offer competitive rates. Our goal is to help you get the equipment you need quickly with a payment structure you can afford.

About TEQlease Capital

TEQlease Capital is a nationwide provider of equipment lease financing solutions across all industries, including manufacturing, hospitality, education, distribution, financial services, healthcare, and retail organizations. TEQlease Capital's Hospitality Equipment Finance group has a unique focus on providing solutions to hotels. Leases can include computers, software, restaurant equipment, spa equipment, golf maintenance equipment, hotel room furniture, cameras and security equipment, copiers, athletic equipment, turf, shuttles and buses, phone and paging systems, HVAC and more. Founded in 2000, the company is based in Calabasas, California. For more information visit https://www.teqlease.com/hospitality_equipment_financing/, call 1-818-222-1006, or email hreth@teqlease.com.