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Hotel pipeline declines, while transactions gaining foothold

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In our Q2 2010 report to the lodging industry, New England Hotel Realty (NEHR) and its research division, Lodging Econometrics, stated that the U.S. Hotel Construction Pipeline totaled 3,325 projects with 392,184 guestrooms, a low not seen since early 2005. This represents a 43% decline in the number of projects and a 50% decline in the number of rooms from the cyclical peak of 5,883 projects/785,547 rooms in Q2 2008.

In Q2, New Project Announcements into the Pipeline were about as low as we have seen them in this cycle, while cancellations/postponements remain at elevated levels. Meanwhile, new hotel openings continue to exit the Pipeline, further depleting Pipeline counts. A total of 364 new hotels, having 39,874 guestrooms, opened in the first half of 2010.

The credit crunch continues to significantly affect lodging real estate development. Early in the cycle, larger (150 rooms or more), high-end projects were impacted the most, as institutional-sized lenders halted real estate lending. Today, regional and community banks are experiencing growing balance sheet difficulties of their own and are now cutting back on mortgage lending as well, directly affecting smaller projects in the pipeline. The result is that development activity has slowed further and pipeline totals continue to fall.

For year ending 2010, LE is forecasting 705 projects/79,701 rooms will have opened across the country. LE's Forecasts for new hotel openings account for the continued high rate of project cancellations and postponements and reflects continued lending difficulties. As such, 2011 should see 673 projects/64,659 rooms open.

New England Hotel

Construction Pipeline

At the end of June 2010, New England's Hotel Construction Pipeline consisted of 88 projects with 10,893 guestrooms (Chart 1). This accounts for about 2.7% of total projects and 2.8% of total guestrooms in the National Pipeline. New England Hotel Realty forecasts that 17 hotels with 1,586 new guestrooms will open in all of 2010 for a gross growth rate of .8%, which is down from last year's 1.3% and which is prior to any removal of hotel rooms from the current Census of Open & Operating Hotels. For '11, NEHR forecasts that 8 hotels with 717 new guestrooms will open in New England.

Forecasted new hotel openings in New England for '10 and '11 combined show the largest growth in Massachusetts, New Hampshire, and Connecticut...not too surprising. 8 new hotel openings with 658 new rooms are expected in Massachusetts, while 6 new hotels and 698 new rooms are anticipated in Connecticut through 2011. During the same period, New Hampshire should see 6 new hotels with 576 new rooms.

What does it mean for the region? It means that over the next 18 months or so, there will be very modest supply growth in New England. These new supply projections should be great news if you

are an existing owner looking for your property to rebound from the recession, as demand should outpace new supply for many months to come.

New England Lodging

Transactions and Values

Not surprisingly, the number of lodging transactions in New England has seen a steady decrease from 2006 through 2009. However, through June 2010, the region is on pace to eclipse last year's total. Further, the average selling price on a per room basis, in freefall in 2007 and 2008 compared to 2006, rebounded nicely in 2009 and is showing gains through June of 2010. Certainly not back to 2006 levels, but gains nonetheless (Chart II).

Notice the over 50% decline in the average price per room from YE 2006 to YE 2008 and the number of transactions from YE 2006 to YE 2009, about a 67% drop.

In 2008, because of the economy, slowing demand and the scarcity of financing for hotel deals greater than \$15 million, many investors went to the sidelines, especially in the third and fourth quarter of 2008. However, over the past nine months or so, new equity groups with significant capital resources have started to form and they are looking for owners interested in selling. Many of these equity groups have debt lined up. Hardly a day goes by when we don't receive a press release announcing another sale or a small portfolio sale in another part of the country. These equity groups are making their way to New England, primarily looking for well located branded hotels that have wide consumer acceptance. We expect this trend to continue for the remainder of the year and into 2011 and beyond.

Some larger significant transactions that occurred in the first half of 2010 were: the Hyatt Regency, Boston, Mass. at \$224,900 per room; the Sea Crest Resort, Falmouth, Mass. at \$66,524 per room; and the Sheraton Braintree.

New England Hotel Realty (NEHR) is the highest volume hospitality real estate advisory and brokerage firm in the Northeast, providing acquisition, disposition, consulting and market research services to the lodging real estate and lending industries. Since 1977, the NEHR team has provided quality investment opportunities and seller representation in hundreds of hotel transactions. We are frequently called upon as advisors to assist in the analysis of a client's lodging investments.

We are prepared to advise in the strictest confidence on whether to sell an asset or hold it and sell at a more advantageous time. We can assist in the disposition of a single hotel investment or a portfolio of lodging assets of any size.

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NEHR provides acquisition, disposition, consulting, and market research services to the lodging real estate industry since 1977. NEHR is highly skilled in the sale of lender-owned and distressed hotels. Ford is responsible for overseeing and directing the company's hospitality brokerage department, working with new clients, and servicing the disposition and acquisition needs of existing clients.