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Hotels moving onward and upward! All trends pointing to a much stronger 2011

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Boston: It's over, we're done, we've turned the corner, the page and hopefully a new leaf! The hotel industry has finally hit bottom with all trends pointing to a much stronger 2011 and beyond. Along with perceived performance improvements, transaction activity has jumped as well. Although 2010 experienced a modest upswing in overall transactions across the country, 2011 is projected to be a significantly better year for getting deals done.

As with every cycle, the trophy assets and the preferred upscale select branded hotels in Top 25 MSA's are leading the way out of the malaise but the rest of the country and brand segments are expected to follow. Occupancy has grown across every brand in every region and we expect average daily rates to begin to rise next year.

As an example, the August Pinnacle Perspective Report has the year to date performance of Boston running at 75.6% occupancy up 6.2%, an average daily rate of $191.05, up 3.2% for an overall Revenue per available room increase of 12.3%. At 75% occupancy, we expect Boston hoteliers to be much more aggressive on room rates in 2011 and we could see double digit rate increases similar to 2006 - 2007. For the week ending October 2nd, STR reported that Boston's RevPAR increased 28.6%.

Boston is typically a very high barrier to entry market and the opportunity to acquire hotels in the city, for less than replacement cost, is very appealing. Well capitalized publicly traded companies and private equity groups that have a low cost of funds and a long term hold horizon are willing to pay low cap rates based upon strong projections. Felcor Lodging Trust a REIT recently acquired the Fairmont Copley Plaza for $98.5 million ($257,000 per room). The "new" Ritz was purchased by a private equity group in 2009 and the Hyatt Boston was sold to Chesapeake, another publicly traded REIT for $112 million ($225,000 per room). Another major hotel downtown is expected to trade before the end of the year and undergo a significant renovation/repositioning.

The Newton Marriott is the first hotel to trade on Rte. 128 in 2010 and we expect several more to change hands in 2011. Actually the Marriott sold twice in approximately one year! The most recent transaction has Chesapeake acquiring the hotel for $77.25 million ($180,000 per room). The Sheraton Braintree was sold as part of a conversion to a mixed use project. A large portion of the hotel will be demolished and smaller, upscale select service hotel will take its place along with retail and restaurant.

The Worcester hotel market got a much needed boost when Mass College of Pharmacy acquired the 250 room Crowne Plaza downtown ($16.5 million) and will take those rooms out of service by converting them to dormitory rooms. The same can be said for the Doubletree Hotel, downtown Lowell that traded to UMASS Lowell ($12 million) for dormitory space. Each of these was acquired at a fraction of the cost of building new dorm space.

The pipeline for new hotel construction is beginning to fill up again as well, although financing remains a very high hurdle. Two Residence Inns by Marriott have been proposed on Congress St. and in the Fenway area and a Hampton Inn is being proposed at Cleveland Circle. We don't foresee any luxury hotels being constructed because the cost to construct remains highly prohibitive. Several thousand rooms that were permitted in the city remain on the drawing board.

Some areas will continue to struggle. Along I-495, southern New Hampshire and south through Connecticut real demand increases have yet to appear and in many cases, hotels in these areas continue to see average room rate decreases. The economic base of these areas, mostly manufacturing, continues to erode and nothing is moving into the area to prop up demand. We continue to see occupancies in the mid-50% range and average room rates of approximately $90. One bright spot is the fact that no new construction is expected in these areas allowing existing hotels to stay afloat while the economy improves.

After marketing and financing hotels for more than 20 years, O'Connell Hospitality Group brokers are more excited about the prospects for the next five year period than any other in our careers. We recite the Texas Developers prayer..."Lord, please give me just one more Boom. I promise not to screw it up this time!"

O'Connell Hospitality Group, LLC, (OHG) was formed in 2000 and has grown to become one of the nation's top real estate firms specializing in hotel investment transactions. In that time, O'Connell has presided over more than $2 billion of hotel investments ranging from oceanfront resorts, major urban hotel projects and suburban, upscale-limited service hotels.

Previous to OHG, James O'Connell was senior managing director for Insignia ESG/Hotel Partners and ran the hospitality practice in the northeastern U.S. region. He is a proud alumnus of RECOLL Management Corp., where he managed hotel dispositions from the failed Bank of New England, an active member of the International Society of Hospitality Consultants, and a REFA sponsor and he is a 1982 graduate of Massachusetts Maritime Academy.