



nerej

James O'Connell - Existing hotel owners will enjoy new recovery without the fear of new supply stealing their gains

May 05, 2011 - Owners Developers & Managers

Existing hotel owners will enjoy a long ride into this new recovery period without the fear of new supply stealing their hard fought gains. Two factors are working together to help hotel owners through this recovery period. Although property performance has improved for just about everyone in New England, the guest room rates and occupancies don't justify the construction of new hotels. Construction funding remains very difficult to obtain, anywhere in the country. These two forces combine to help existing hotel owners get a leg up on the next cycle.

Nowhere is this more apparent than in Boston. According to Pinnacle Advisors, Boston finished 2010 with an occupancy of 75.5% and an average daily rate of \$195.31. Each figure showed a 5% increase from 2009 levels. These are very respectable numbers and place Boston as one of the strongest hotel markets in the country. However, these guest room rate figures cannot justify the cost to construct new hotels. With rates in the \$200+ and the cost to construct a hotel of 150 - 200 room averaging \$350,000 per room, the numbers just don't work, if you require any type of investment return. Outside of Boston, in the suburbs and places like Portland, Hartford, Springfield and western Massachusetts there are pockets of demand and strength for hotel future prospects, however, it will be several years before the markets can justify new supply. Occupancies in Hartford range from the mid to low 50% with guestroom rates below \$100. Portland is working to absorb a flurry of new supply that came on line in 2008 and 2009. Springfield historically drew off demand from Hartford and the Bradley International Airport. However, demand along the I-91 corridor is very weak. Hotels up and down that corridor are struggling.

Manchester, N.H. was a market that experienced strong hotel room demand in the 90's and early 2,000's but has been hit hard by the ripple effect of Southwest Airlines expanding to Logan International Airport in Boston and by the new supply of hotel guestrooms that came on line from 2000 to 2007. There are two closed hotels in this market that will continue to depress market performance if the day ever comes that demand justifies their reopening. Another city hit hard by new supply and a decline of enplanements is Providence/Warwick, R.I. The NYLO Hotel remains closed after floods in 2008 forced it to close. Overbuilding in the Providence market coupled with the reduction of flights out of TF Green Airport by Southwest Airlines has had devastating effects on the hotel performance. At least 50% of the hotels in the market had to exercise some level of debt restructuring to get through the past three years. This is for hotels at the airport as well as downtown Providence.

The only market in New England where a case could be made for new supply additions is Burlington, Vt. This market is based on non-cyclical guestroom demand from the University of Vermont, the Fletcher Allen Medical Center, Homeland Security training facilities and IBM. Couple

these demand generators with seasonal leisure guest demand for area skiing in the winter and Lake Champlain in the summer causing a robust economy and the hotel guestroom outlook for Burlington is very positive.

As long as fuel prices don't prohibit travelers from hitting the road this summer and considering that 2010 was the base year and the first year of a hotel guestroom demand recovery, we would project that room rates and occupancies sufficient enough to produce revenues that justify construction costs will happen sometime in 2014. This gives hotel owners a pretty good head start and an opportunity to reap the rewards of their labors without fear of being dropped back down the food chain by superior, newer hotel product...at least for a while.

James O'Connell is principal at O'Connell Hospitality Group, LLC, Danvers, Mass.

New England Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540