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Jim O'Connell - More and more lenders are interested in lending on hotels and that is good news for investors

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Boston:

Debt and equity raising for hotel acquisitions is part of the services O'Connell Hospitality Group (OHG) provides. One year ago, we knew of only one lender actually putting out hotel debt. Wells Fargo was aggressive, but was in the enviable position of being the only girl at the dance and got to pick and choose from some very good deals. Good for them! Times have changed. More and more lenders are interested in lending on hotels and that is good news for investors.

Hotels are still not part of the four major food groups, but a competitive lending environment has caused LTV's to drop from 50% to 65%. Requirements for only "major urban markets" has slid to secondary and recently tertiary markets. Regional and local banks have elbowed their way into the loan discussion. Interest rates are in the high to mid 5's with Swap rates getting into the low 5's are now fairly common for properties that have steadily improving cash flow. Lenders remain very reluctant to lend on new construction projects.

So, with interest rates low, LTV levels dropping and more lenders coming into the market every day, why aren't the buyers more aggressive? We believe it's a herd mentality and that the investors that will make out the best in this improving real estate cycle are the investors that look to second tier level hotels in good markets. We all love Marriott and Hilton Upscale Select hotels. The business model is very sound. However, the upside potential, post closing, is squeezed out because investors have to pay such low cap's going in.

Mid-market, full service properties with brand conversion potential are the best properties to invest in right now. Renovation dollars are cheap and as the economy grows and the general public travels more, the IRR's for these properties are through the roof.

When was the last time you saw someone tear down a hotel? Once in the past decade? Right now, the stars are aligned to get into a full service hotel at a basis of 50% to replacement cost or less and as long as the owner and operator continue to stay current with the trends of the traveling public with things like Wi-Fi and flat screen TV's, the returns on investment are much higher.

A very good example of this is a New England company that flies under the radar screen, Lafayette Hotels. The company owns over 30 hotels throughout Maine and New Hampshire. They buy older, full service hotels in secondary markets. The acquisition basis in these hotels has been as low as \$25,000 per room. They complete extensive renovations and most times actually remove the franchise. By cutting the cord with a major franchise they save 10% to 12% of gross revenue. They rely on providing a quality guest experience to local businesses and the community within which they operate. Their sales people are incented to work very hard locally. Because they operate locally, financing is fairly easy to obtain at very favorable rates. With a basis of \$35,000 - \$40,000 per room after renovations and a hotel RevPar that exceeds \$50, the investment returns skyrocket.

The franchisors and the opaque sites like Expedia, Travelocity and Priceline have allowed hotel investors to be lazy. Paying 12% of every dollar to capture a traveler that may already be in the community or discounting your room inventory up to 50% so a shopper can book last minute is the norm rather than the exception. The brands were designed to help hoteliers, not feed hoteliers. Investors are out there fishing and we as guides can now provide you the best rods, fastest reels, freshest bait, and calm flat seas. You have to stop searching for that 1,000 pound Marlin that eludes all fishermen and fill your boat with Cod and Haddock, easily hooked up from the bottom. Now that all of the pieces are in place for a very profitable run of 36 to 48 more months, investors can take advantage of extremely low finance terms and look beyond the glamour targets because it's downstream a little bit where the BIG fish are going to be caught!

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