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CELEBRATING 55 YEARS

Enjoy this perfect time in the New England hotel market cycle!

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It's great to own a hotel in New England...right now. According to the Pinnacle Perspective, Boston is running over 72% Year-To-Date, April 2013 with an overall rate of $232, up 4% from 2012. We see strength in every market in New England with very little cause for worry... right now. Debt is plentiful. From the large banks that do large deals like Wells Fargo and Bank of America, to super-regionals like Peoples United Bank to local banks like Cambridge Savings and Middlesex Bank. They are all looking to place debt... right now.

Debt for construction has evolved from "Hell No," to "We'll see," to "for the right deal." As we look at the performance of existing hotels, everything looks great... for now. There are no actual "new supply" issues in any New England market...for now.

So if you are a hotelier or investor in a hotel, enjoy these great times, because they don't last very long. We had to live through 2008 - 2010 when times were tough and financing went from impossible to extremely difficult to what we have right now. Restructuring, write downs, foreclosures were the norm and we had to slog our way out of that and now let the good times roll! We are in the good stretch of the real estate cycle and are projected to stay there for a while. PKF Consulting says the peak is 2017! Unless you are in a market that expects an increase of 60% new supply, like Portland, ME. Or if you are used to getting convention business south of Boston like the hotels from Dorchester to Braintree, but over 2,000 guest rooms are projected in the Innovation district. Remember, for these hotels to effect value, they don't have to be taking reservations. New supply becomes a factor in underwriting when the rumors of a new hotel start flying. When it becomes permitted, it is reality and projections impact the value of existing hotels.

Many of the submarkets around New England are experiencing very solid hotel performance. Owners and investors should enjoy the good times while they last. But if you own a hotel in a market that is comprised of hotels older than 10 years, beware of new construction. Because once the new supply is added, travelers want new and the usual way to compete against "new" is to drop the rates. When rates drop, nobody wins.

The cost to construct hotels has increased significantly over the past 3 years. The cost of construction materials has skyrocketed. This has held back a wholesale onslaught of new projects in Boston and for that reason; Boston is fairly insulated from the ravages of over-building. To date, only two hotels have come out of the ground. The Residence Inn on Congress Street and a Residence Inn in the Fenway area are well on their way to opening. A new Autograph Hotel by Marriott in the waterfront district will soon break ground. And then there is the two-hotel/500 rooms behind the convention center and the 1,000 room hotel across from the Convention Center and the 200 room select service hotel site down the street from the convention center. That's all great... for the Convention Center.

Things are so good these days, hotel owners state with a wide grin..."Why should I sell? I can't buy anything that makes sense." But taking chips off the table when prices are strong and fundamentals appear sound is the best, most astute move to make. Buy when things turn. Instead of riding the wave down, get in on the bottom. That's astute portfolio management. Now is the time to take advantage of all the hard work owners have put into management.

Are we at the peak of the market? Some would say only Tom Flatley could time a market perfectly. We are, in places like Salem where two hotels run in the mid 60's in occupancy and a third hotel is proposed. For how long can those two hotels project future upside?

Old sites are being kicked around again in Boston, Somerville, Charlestown, N. Cambridge, Canton, Waltham, Burlington, Salem, Worcester, Northampton and places north and south. Good sites never die, just the memories of those who made bad deals hoping for better days. But those who have weathered the storm of the last cycle had better keep an eye out for new supply. It is the killjoy of every hotel real estate cycle. And, inevitably, as investors and lenders chase yield, it will affect us all.

For the most accurate projections on new supply, contact J.P. or Bruce Ford at "Lodging Econometrics", www.lodgingeconometrics.com

The Developer's Prayer: "Lord, grant me just one more boom, I promise I won't screw it up!"

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. He is a 1982 graduate of Massachusetts Maritime Academy.