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As the summer rolls along, we expect the hotel market to continue to improve

July 25, 2013 - Spotlights

It's mid-July and the entire east coast is gripped by an intense heat wave. It makes me laugh to hear people in New England complain about the heat after spending six months in a cold, dark climate where ice and snow storms are common occurrences. Personally, I view the heat, along with the summer fun that it brings, as a reward for dealing with the snow and ice during the dark, cold days of winter.

The lodging industry, like our climate, continues to heat up. Through May, Smith Travel Research recently reported the U.S. hotel industry's occupancy rose 1.1% to 64%; its average daily rate (ADR) was up 3.6% to $109.86; and its revenue per available room (RevPAR) increased 4.7% to $70.34. In addition, PKF Hospitality Research recently conducted a survey of hotel owners and reported very positive findings in their June 18, 2013 press release. In summary:

Due to limited supply growth, revenue per available room (RevPAR) is forecast to grow between 6-7% in most major U.S. lodging markets.

Given the strong outlook for revenue growth, net operating income (NOI) is forecast to increase in excess of 10% through 2015.

Interest rates for hotel development and acquisition purposes remain at historically low levels, therefore the dividend yield from a hotel investment looks very attractive given the risk.

As special servicers and banks work-out their troubled lodging assets, fewer distressed properties remain to have their loans modified or sold.

Few quality hotels are available for sale causing interested parties to bid aggressively.

Based on what we are seeing from the hotels we own and operate, underwrite to acquire or when we conduct internal market feasibility analysis to develop, I would agree with the PKF survey. We budgeted an 8% RevPar growth for our hotel portfolio and we are tracking on budget for both RevPar and NOI. Regarding interest rates, we are purchasing a full service hotel in New York State at the end of the month and are currently assessing and negotiating four attractive term sheets.

Coming out of the recession, we acquired, repositioned and rebranded two limited service hotels. One through purchasing a note and foreclosing and the other was purchased directly from a bank. We expected this activity to continue but we never saw a steady pipeline. Finally, high quality, cash flowing hotels are in high demand. Typically, the capitalization rates do not make sense for our company so we typically look for complicated deals that stay "beneath the radar" of low cap rate buyers.

We recently entered into a joint venture agreement to develop a new Homewood Suites, with an adjacent restaurant site, in Massachusetts. Based on what is happening in the lodging business, building a new hotel does not make logical sense in most cases. In fact, according to Smith Travel, they expect new hotel supply to remain at record low levels for the foreseeable future. Our decision

to dive back into new development was driven by a number of factors including, but not limited to:
* The inability to acquire an existing hotel, in the market, that met our investment criteria
* The near and term strength of the marketplace
* The ability to structure a "win/win" joint venture agreement with the land owner
* The availability of premium Hilton franchise
* Access to attractive financing
* In our case, the ability to align our affiliated companies to "turn-key" the hotel from site control and permitting through construction, design and ongoing operations

As the summer rolls along, we expect the hotel market to continue to improve. Even though we are in the middle of July, everyone I know is very busy working on deals, considering projects and bidding on business. When I think back to the summers of 2009 and 2010, this simply was not the case.

Remember to get out and enjoy the summer heat. And, when you find yourself complaining about heat or humidity, visualize yourself removing snow from your driveway and steps after a long day at work.

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