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Out of the doldrums and into the phase of the cycle that signals an approaching peak

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Good Bye 2009, we suffered, we wrung our hands with angst, we cursed, we consoled. Now, a mere 48 months later, bring on 2014! We cheer, we high-five, and we trip over the stack of LOI's from lenders looking to do deals! Now, the new supply is coming! We are officially out of the doldrums and into that phase of the cycle that generally signals an approaching peak.

Mark Woodworth of Panel Kerr Foster and his hospitality team have projected that the peak could be 2015. So please get your shovels in the ground ASAP! Harry Wheeler of Group One Partners, a Boston architect and an NEREJ hospitality expert has a pipeline of over 50 hotels and 1,660 hotel rooms in the Boston metro area.

With the exception of much of Connecticut, every market that O'Connell Hospitality Group has reviewed in the past six months is being or will be impacted by new supply. This impact is being caused by various segments within the Marriott, Hilton, Starwood, IHG and Choice family of brands. Adaptive reuse of historic buildings, boutique hotels and youth hostel projects dot the Northeast landscape as well.

There are two primary reasons for this rush of new supply. The availability of new debt sources and the strong performance within existing markets. The lenders had adopted a "Hell No!" response to construction financing twelve months ago. Now national, regional and local banks are all looking to get into building hotels.

The strong performance of existing markets enables developers to produce strong projections. It all starts in Boston where annual occupancies are in the mid 70's. Average room rates continue to climb. However, so does the cost to construct. As an example, a survey undertaken by Group One confirmed that the cost to build a hotel in Boston is approximately 15% higher in Boston than in New York! Primarily due to the fact that Boston is bound to union labor. So, it seems we have the labor unions to thank for making sure Boston never gets into an "over supplied" condition.

The pipeline for the suburbs is building as well. Burlington, Waltham, Needham each have projects with ground breakings set for 2014. Along Interstate 495, although weaker still, hotels in Littleton and Marlboro will come off the drawing board and become reality. A waterpark developer is proposing the expansion of a park and the addition of +200 hotel rooms in Leominster.

Outside of Boston, new hotels are under construction or in the permitting process. Portland, ME has 5 hotels in process, Burlington, VT has just completed one, with one under construction and at least one more in the process. Nashua, NH, a market with occupancies barely out of the 50's is slated to get a new hotel. None of these are remotely involved with casino gaming. The three areas that win the high stakes game of casino development will experience an influx of hotel rooms in the thousands, transforming their communities into destination locations. By the way, instead of the citizens of Boston voting on a Suffolk Downs casino, could we please have all those driving north from Logan Airport at 6pm on a Friday afternoon, vote on the casino! The most poplar guy on the North Shore is the State Trooper that sits in his cruiser and controls the lights across from the Honey Donuts!

Anecdotal evidence that the peak is near was presented to me last night when, standing with a friend/residential home builder, he received a text from a broker requesting that he join an RFP process, for a 120 room hotel on the campus of Indiana University!

We're in real estate. History repeats itself. Hopefully, this time someone could invent an "app" that ascertains the factual amount of room demand in an area. Hopefully, consultants will consider all of the proposed hotels coming into a market, rather than just the existing supply. Hopefully, lenders will continue to require large stakes of equity and underwrite newconstruction risk using the same factors they calculated eighteen months ago. Obviously, there wouldn't be as many hotels constructed. Existing hotels would perform better, over longer periods of time. Stronger performance creates stable cash flow, producing more confidence in a consistent return on investment, dropping capitalization rates and increasing values.

Hopefully all that happens. In the mean time, I'm off to Indiana University with a friend of mine to build a Hilton Garden Inn!

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.