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The New England hospitality industry continues its forward momentum

May 15, 2014 - Front Section

In our Q1 2014 report to the lodging industry, New England Hotel Realty (NEHR) and its research division, Lodging Econometrics (LE), stated that the U.S. Hotel Construction Pipeline totaled 3,226 projects/ 407,235 rooms, a significant Year-Over-Year (YOY) increase of 13% by projects and 15% by rooms.

Both construction starts and new project announcements into the pipeline increased significantly compared to Q1 2013. Construction starts have increased 67% by projects and 115% by rooms YOY, and have reached a new peak level by rooms since their cyclical bottom in Q2 2010. In Q1 2014 new project announcements rose 29% by projects and 31% by rooms YOY and also reached a new peak level by rooms over their cyclical bottom in Q2 2011. Additionally, 92 hotels having 9,679 rooms opened in Q1 2014.

These metrics tell a compelling story of continued forward momentum in the United States construction pipeline, a trend that is expected to continue late into the decade. Overall developer sentiment is positive as optimism permeates the industry due to strong operating improvements, the increase in lending sources and the upward, albeit slow, general economic improvement.

At year-end 2014 it is forecasted that 634 hotels/ 71,076 rooms will open across the United States, an increase of 146 hotels over 2013 openings. Total supply growth is estimated at 1.4% for 2014, a substantial jump over previous years, but rather muted compared to historical supply growth percentages.

New England

Construction Pipeline

At the end of Q1 2014, New England's hotel construction pipeline consisted of 123 projects/ 14,523 rooms (See Chart 1). This accounts for about 3.8% of total projects and 3.6% of total rooms in the national pipeline. New England Hotel Realty forecasts that 20 hotels with 1,826 total rooms will open in 2014. For 2015, NEHR forecasts 22 hotels with 2,324 new rooms will open.

To date, forecasted new hotel openings in New England in 2014 and 2015 combined show the largest growth in Massachusetts and Maine. Eighteen new hotels with 1,771 rooms are expected to open in Massachusetts while 10 new hotels with 876 rooms are expected to open in Maine through 2015.

Obviously, not every city, town or municipality will witness new hotel construction over the next few years, however, if you are an owner it makes sense to pay attention to the pipeline in your markets of interest as developer sentiment is turning positive. Going forward, look for developers to favor Select Service hotels due to their wide consumer acceptance and large reservation systems which

are attractive to lenders.

New England Lodging

Transaction Values

The number of lodging transactions in New England continues to be rather subdued (See Chart 2). As of Q1 2014 10 hotels have been sold in the region. Although this is ahead of Q1 2013 at this time, it still feels rather sluggish. Since 2011 prices on a per room basis have risen steadily, but through Q1 2014 are off of last year's pace.

Nevertheless, in the New England region we expect a more robust transaction market going forward in 2014 and 2015. We are in an unusual time period right now where it is a good time to be both a buyer and a seller. Interest rates are low and lending is available from many sources, making it a great time to buy properties. At the same time, with buyer demand surging and cap rates relatively low, it's a great time to take profits as a seller.

New England Hotel Realty (NEHR) is the highest volume hospitality real estate advisory and brokerage firm in the Northeast, providing acquisition, disposition, consulting and market research services to the lodging real estate and lending industries. Since 1977, the NEHR team has provided quality investment opportunities and seller representation in hundreds of hotel transactions. We are frequently called upon as advisors to assist in the analysis of a client's lodging investments.

We are prepared to advise in the strictest confidence on whether to sell an asset or hold it and sell it at a more advantageous time. We can assist in the disposition of a single hotel investment or a portfolio of lodging assets of any size.

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NEHR provides acquisition, disposition, consulting and market research services to the lodging real estate industry.

Ford oversees and directs the company's hospitality brokerage department, working with new clients, and servicing the disposition and acquisition needs of existing clients.

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