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Connecticut's hotel market in 2014: Improving

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The hotel market in Connecticut continues to improve, albeit at slower pace than other states, largely due to the lackluster economy. Furthermore, the state continues to see the culmination of distressed assets being repositioned in the market.

In terms of transaction activity there have been roughly 17 hotel sales statewide since mid-2013. In January there was a flurry of transactions including The Hampton Inn in Waterbury, The Best Western in Fairfield and the Holiday Inn in Danbury. The Hampton Inn in Waterbury sold for \$6 million, or \$65,934 per guest room. This property, while operating at market levels, was in financial distress as it was overleveraged. The sale was approved by the lender who received some additional compensation from the sale proceeds to offset the loss on the loan. The 60-room Best Western hotel in Fairfield transferred for \$100,000 per guest room. This is one of the few single asset transfers at this lofty level. However, with significant barriers to entry this asset should perform well in the long run with a convenient highway location and proximity to the Fairfield Metro train station. Reportedly this represented one of two hotels that were sold simultaneously, the other being in the Boston market. Finally, the 114-room Holiday Inn in Danbury, which was in the process of being upgraded, sold for \$5.5 million, or \$48,246 per guest room. The Danbury market is saturated with guest rooms which likely had a negative impact on the price of this asset.

Another notable transfer was the former Crown Plaza hotel in Hartford at 50 Morgan St. This hotel sold in September 2013 for \$8.5 million after being purchased for just over \$20 million in 2007, the past peak in the market. This represents a 58% decline in value. While it could be argued that the price paid in 2007 was aggressive, it indicates the potential for value degradation in soft markets, especially for full service hotels. In Mystic, The Days Inn also sold after being foreclosed on by the prior lender. The hotel transferred in August 2013 for \$3.7 million with the lender providing funding for the acquisition. The prior sale of this hotel took place in 2006 when the property transferred for \$5.82 million. While the decline in value was not so pronounced as the prior example, it does show an overall decline in value of 36%. Aside from several portfolio transactions, the sales that do occur tend to be hotels that have been in financial distress and require repositioning in the market. Many of the remaining sales are non-institutional grade assets being traded between local operators.

While the transaction activity has been lackluster at best, this is not indicative of the health of the overall hotel market. In virtually all of the valuations I have completed over the past six months revenue per available room (RevPAR) has been increasing following regional trends as reported by Smith Travel Research. While the increase is due in part by meager increases in occupancy, most of the improvement in revenue is due to increases in threshold average daily rates. Overall, the increases in RevPAR are lagging national statistics due to relatively minor increases in demand. However, as long as the supply does not increase significantly, and the economy continues to improve, it is likely that even occupancy may rebound in the months ahead. Despite these positive

trends most knowledgeable buyers would not presently speculate on significant market improvement.

In terms of supply increases we know of just two new hotels under construction in the state at present, those being a Homewood Suites on West Street in Southington and a Marriott Residence Inn in Stamford. The former hotel was clearly built due to the level of occupancy at a nearby Residence Inn. Additionally, there are several proposals including a luxury hotel in West Hartford, a limited service Cambria Suites in South Windsor, a Homewood Suites in Danbury and a Home2 Suites in Vernon. Furthermore, Winston Hospitality recently acquired two incomplete hotels through foreclosure in Connecticut and they also have plans to finish construction and hopefully open the two properties in 2015. These include a Hilton Garden Inn in Wallingford and a Hampton Inn in Norwich.

Overall, I anticipate continued improvement in the hotel market throughout Connecticut in 2014 with more transaction activity for better performing assets. Values should continue to increase as a result of slight increases in occupancy and average daily rates as well as from stable to declining capitalization rates.

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