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People are travelling and spending; owners are comfortable selling and buyers are purchasing

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As the summer winds down I see many hospitality owners and brokers with big smiles on their faces. It has been a wonderful summer for business and the expectations for the fall season are high as well. It seems to have been a long time coming but people are definitely traveling and spending. It has also been a number of years since we have seen so much seller and buyer interest and activity. As I discussed in my article in the New England Real Estate Journal in July seldom do we benefit from a time in which it is actually a good time to be either a seller or a buyer. Business at hotels throughout New England is very good, revenues are on the upswing and interest rates are still at very low levels and buyers are purchasing with the belief that values will continue to grow.

Sellers are comfortable selling because the low interest rates create favorable pricing due to low capitalization rates and buyers benefit from those same low rates.

Our brokerage firm is enjoying one of our best years since the beginning of the deep recession. I have some statistics here from our sales activity that should be of interest to many in our business. We recently closed on two mid-market franchise properties, one a Hilton product and the other a Marriott product both limited service hotels and the price including the PIP (Property Improvement Plan) was $98,000 and $90,000 per key. We also closed on a 70 room independent hotel in one of New England's most desirable summer resorts for $107,000 a key, that price is a benefit of being in a "high barriers to entry" market. We do have some other slightly older or older properties under agreement where the prices are in the $35,000 to $50,000 a key price range, seems low but still much better than the prices of three and four years ago.

Some trends we have been following and continue to recognize as having an impact on the hotel business, the hotel buyer and the hotel broker.

- A continued increase in demand for high quality boutique non-flagged hotels in both urban and resort locations, especially with "high barriers to entry"
- Continuation of low capitalization rates and investor interest which can push prices higher
- A concern about overbuilding new product in certain markets around New England, an example would be the new 500 guest rooms planned for the downtown area of Portland Maine could make for a long winter in some of those properties.
- Will the supply of available hotel properties meet the buyer demand? Probably not and another reason to watch for prices to increase
- Will owners look closer at a decision to sell considering the increase in the Capital gain tax and the Obama Care tax?

Older properties will come out of the market and be replaced by other uses; obviously this is consumer driven and good news for markets with a lot of new hotel construction. The term we are not over built but under demolished has been around for years though and we have never really seen the level of demolition that one would expect.

I believe the biggest trend has been the consolidation of hotel ownership that has taken place over the past 20 +/- years. It still continues to be the driving force in our hotel market today. One of my clients bought his first hotel in New England from me in 1992; he now owns 2300 guest rooms in New Hampshire alone. I believe this consolidation has had a very big impact on our role as hotel brokers. Obviously excellent relationships with all the owners of multiple properties is important but as I remember when I was a lot younger the term "it is not what you know but who you know" that leads to sales, however, it is now "who you know and what you know" that is an absolute requirement. As an example in our small firm of three associates we offer diversity of backgrounds, hospitality experience, and real estate sales experience and over all great product knowledge.

An increase in interest rates will have to come about at some point. I still remember the early 1980s when the SBA rate was 2.75 points over the prime rate and the prime rate was 18.5%. Not a lot of loans were written in those days and it is amazing how many of us in the real estate business found a means to get through it. In comparison it seems now the lenders are almost giving the money away.

If there is a weak point in the current transaction market it pertains to smaller owner operator properties, especially those with food and beverage. The Bob Newhart syndrome is long gone and many buyers now recognize how tough the food and beverage business can be and how hard the owner has to work. Fewer people are willing to take these types of property on as it must be more than a "lifestyle" in that it has to be financially rewarding as well. The smaller and older motels, inns and the like are losing value with time and unless these properties are really well managed, kept in immaculate condition and in the best locations they will continue to lose value.

Well, as I discussed it has been a great summer and likely a great fall season, may it continue.

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