nerej CELEBRATING 55 YEARS

For owners and buyers it has been a good year; revenues are up and interest rates are low

October 30, 2014 - Spotlights

The fall business season is over and many hospitality owners and brokers have enjoyed both a very busy summer and fall. The fall foliage was spectacular; some of the best colors seen in years and the high expectations for the fall season seem to have been achieved. It has been anticipated for a while now 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. From both a Hotel owner's and buyers perceptive it remains a good time to buy or sell. 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.

Some statistics from our sales activity that may be of interest to many in our business includes two recently closed 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
* What I believe to be the Urbanization of America; there is a strong trend back to the cities and many cities in New England are really benefiting by it. Great examples of it include: Burlington, VT., Portsmouth N.H., Portland, Maine and of course Boston Mass. It seems the redevelopment in these cities is driven first by numbers of high quality restaurants that are surrounded by small brand name retail stores. That mix has created the need for new hotels and then backed up by new upscale apartments and condominiums. This obviously bodes well for the construction of more high quality limited service and extended stay hotels. It also though is going to benefit many of New England's tourist destination hotels and other hospitality properties. The city dwellers will enjoy the benefits of having easy access to a multitude of dining and entertaining experiences all week but then use other free time to travel to destination markets throughout New England
* 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. It seems that we have never really seen the level of demolition that one would expect, but it is coming.

* We 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.

* An increase in interest rates will have to come about at some point. Many of us still remember the early 1980's 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. It would seem as there are interest rate increase that capitalization rates should follow. I think that we are hoping that this will not happen for a while.

* 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 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.

Well, it has been a very good 2014, may it continue.

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