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The good times continue to roll with no bubble in the near future for hotel investments

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The good times continue to roll and there doesn't seem to be a bubble anywhere in the near future for hotel investments. 2015 looks like it will be another strong year for hotel performance across New England and although there does appear to be new supply entering several markets, it doesn't appear to have a major impact.

The Boston market is one of the best in the country. The strength of the market will cause hotel occupancies to continue to be high. In 2014, Boston topped out at 81% with room rates averaging $240. At 81%, you might find a room on a Sunday night in January, but it's jammed the rest of the year.

A ground breaking was held for the Four Seasons near the Christian Science Center to kick off 2015. This ultra-luxury hotel is projected to be the market leader in rates in all of Boston in 2018.

Hotels are under construction near the Boston Convention & Exhibition Center and the contract for construction of the 1,200 room headquarters hotel should be awarded in late April. That isn't expected to impact the market until 2018.

Three hotels are under construction in the Logan Airport market in East Boston and Chelsea, but the hotels within the competitive market area run over 85% occupancy. These hotels are absolutely necessary, especially when the FBI moves in to Chelsea and brings over 500 employees to the site.

The suburban Boston hotel market will experience another very strong year. All along the Rte. 128 corridor hotel occupancies and room rates will increase a projected 5% - 6% with very little new supply impacting business.

The I-495 beltway has pockets of strength in traditional submarkets of Westborough and Marlboro, but hotel performance in the Northern and Southern I-495 sectors will continue to be slow to strengthen. These areas are also susceptible to new supply as land costs are low and construction debt is available. New hotels in these markets will enter as the new, fresh faces and skim off the top of the market and push the rest of the inventory down lower. Many existing hotels in these markets are twenty five years old or older.

Worcester will experience new supply additions in 2016 and everyone is holding their breath for the resurgence and real estate boom in Springfield when the approved casino goes under construction. The vibrations from the casino development should be felt all over western Massachusetts as tourism gets a major demand generator.

In Portsmouth, N.H., a Hampton Inn & Suites will be completed and opened in 2015 and will be absorbed. Another hotel is in the permitting stages downtown. Portsmouth continues to be a very strong market with a very good balance of corporate transient demand as well as strong seasonal tourism demand.

Manchester is a flat market hurt by over supply caused by the decline of flights associated with

Southwest Airlines and other carriers. No new supply is projected for this market. Nashua has two hotels under construction which will not be good for that struggling market. A Residence Inn and a Homewood Suites are both projected to enter the market in early 2017.

Burlington, VT. will shrug off the additions to supply in its market and continue to experience occupancies in the mid 1970s.

Portland, ME has had four new hotels and a major renovation and conversion of a historic hotel. That market will continue to experience occupancies in the mid-1970s and a 5% boost in room rates.

Northern Maine and Vermont are affected by the weaker Canadian dollar and the drop in tourist travel from across the northern border. Despite favorable tax laws, the strong dollar is keeping the Canadians at home.

All this enthusiasm for great performances has led to a zealous investment market. Prices for downtown Boston hotels can be justified at over $600,000 per room. Outside of Boston, in the suburbs and around New England, direct capitalization rates being paid for upscale select service hotels are averaging 8%, before the cost of a Product Improvement Plan. Marriott and Hilton select service branded properties command the highest prices within the segment and garner attention from investors across the country. These are followed by Intercontinental, Choice and a host of other brands. Full service, mid-market product remains the toughest properties to price and to sell. Pricing for these assets are approximately 200 basis points higher than for select service hotels.

In conclusion; all of the forces have aligned to make hospitality investments very profitable for at least the next two years, pretty much wherever you go in the Northeast. It's a good time to own and a GREAT time to sell!

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