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Hotel business is alive and well in New England - growth in average daily rate and occupancy

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I have written numerous articles for the New England Real Estate Journal over the years and I usually find that the first few sentences are the most difficult, however, this time it is almost a "no brainer": the hotel business is alive and well in New England. Therefore my preview of the upcoming spring, summer and fall seasons is for continued growth in both average daily rate and occupancy in most all markets throughout New England. This also indicates a good time to be a buyer or seller but herein lies one of the problems we are facing as brokers. The transaction market has been very good now for the past two years. We had one of our best years ever in 2014, and we are beginning the year with some very good transactions, now though, the inventory of good product, especially in the mid-market segment is diminishing. We now expect an increase in prices and more new construction. It is the continuation of a strong business cycle but now I will sound like a broken record (It just occurred to me that the phrase "broken record" shows my age and there are probably two generations today that do not even know what that means) as I have indicated in numerous articles the older hotels will continue to suffer. The good news for the owners of the older hotels is that the locations are usually more valuable than the hotel and perfect for alternative uses. The well-known Meadowbrook Hotel at the Portsmouth Traffic Circle in New Hampshire is a prime example as now it is a new automobile dealership.

Now back to the current market: a good example of the very stable hotel market is a sale we recently completed. It is the Shire-Riverview in the village of quaint Woodstock, VT. One of the big advantages to buying in Woodstock is the "barriers to entry", there just cannot be any more hotels in the village. This is very similar to other markets such as Ogunquit Me where we sold a really nice property at a very good price last year. The Shire Riverview is located on the banks of the Ottauquechee River with views of the fields and woods owned by the Rockefeller Foundation and on Woodstock's Main St. After 30 years of ownership the owners felt it was time to sell and we were able to generate a sales price of \$100,000 per room, and also created both a partial tax deferred exchange and installment sale to minimize the tax implications. It appears that many transactions this year will be of this nature. Long term holders of owner operator properties deciding it is time to retire. Many of our current available properties have very similar characteristics.

Financing is again readily available and in fact lenders who had opted out of financing hospitality properties are again looking for loans. The SBA 504 program continues to be a very popular form of financing. The SBA 504 is designed such that a lender provides 50% of the sales in a first mortgage and the SBA sells a bond to finance either the remaining 30% or 35%. The advantage is that the SBA portion is fixed for 20 years and amortized over 20 years. The government insures the loan but I have been involved in numerous 504 loans over the years and none that I have been involved in have defaulted.

Some further issues and trends to consider:

- * There will be a continued interest in high quality boutique hotels, especially in markets with high barriers to entry.
- * The supply of available hotels for sale will probably not keep up with buyer demand and therefore prices will increase and new construction will increase further.
- * Older properties will be replaced by other uses, especially as consumer demands respond to the quality of the newer hotels such as the Hilton and Marriott Properties.
- * Expect the lower capitalization rates that have been in place for the past couple of years to continue.
- * There will be further consolidation of ownership as regional companies continue to expand.

I am looking forward to another successful year and my best wishes for a busy and healthy 2015 to all my hotel owner friends throughout New England.

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