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## **Hotel investors rejoice! Summer is coming and we are in the absolutely perfect spot in the cycle**

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Everything possible indicator is pointing to good times ahead. For those with existing hotel investments, downtown, suburban, seasonal resort, full services, select service, branded, independent, even youth hostels, heck, the guy with the Pup Tent on Boston Common, occupancies will be up, over 5% from 2015 and average daily rates will be well over 5%. A 10% increase in Revenue per Available Room is a very healthy increase! Enjoy!

Over supply, the "Debbie Downer" of every hotel investment party is well off on the horizon. Even New York City, which wrestled with a strong dollar and many new hotel rooms, has seen the worst and is projected to improve with those same percentage increases. Our New England region has no local area in danger of being affected by over supply... yet. Several factors are helping us to stretch out this cycle and let the good times continue to role.

The cost to construct is said to be advancing by 3% per MONTH. Which means that by the time you finish bidding on a hotel site and underwrite the cost of land, site work and construction, you go through the permitting process (fast track) and pull a permit, the cost to construct that same hotel could be 30% higher than when you started. Investors can't underwrite that increase and expect to acquire premium hotel sites. Therefore, the progress for new supply additions has slowed to a crawl thus prolonging the good fortune for those existing hotel investors.

A threat to raise interest rates cause some consternation in the markets this winter, However, economic indicators continue to show that a rise in rates is well off in the future. If anything, it has caused those with capital to place, to become more aggressive, subsequently pushing down rates of return. Direct Cap rates are now in the 7.5% - 8% range for upscale select service properties. Portfolio acquisitions have been the rage allowing private equity funds to acquire in bulk, saving time and transaction costs. All good for those owners of Marriott & Hilton products in the suburbs.

There is a broader concern that has taken shape as brands struggle to differentiate from their counterparts. Those of us with gray hair came into this business when mid-market Holiday Inn's were the dominant brand. The rest of you will just have to watch reruns of "Mad Men" to understand the culture. Stop into the hotel lounge for a few drinks at Happy Hour before the drive home was part of the daily routine. Hotel F&B accounted for approximately 50% of many businesses. (I'll give a free lunch to the first person who calls me to tell me the name of the lounge inside the Ramada Hotels in the 1970s). As our culture evolved and DUI's became more prevalent, The "select service" product lines of Courtyard by Marriott and Hampton Inn by Hilton rose to prominence. Skip the food and the beverages, just a clean room. The business model was a huge success and transformed the industry creating a whole new asset class. Rooms only, 70% profit, what a great concept. But eh world keeps turning and the quest to serve the Millennial's has begun.

Amenity creep is eroding that rooms only business model. Rooms only, progressed to rooms only

but with hot coffee and danish at check out. Rooms only, hot coffee, danish and buy a toaster to toast bagels. Then lets have cold cereal. Then, the lobby is getting crowded because there is really only room to check in and out, don't trip over the cord to the toaster, let's create a "Great Room". The internet is coming. Every room has to be hard wired to plug in a computer. Good, we'll charge \$10 for internet usage which will offset the cost of the phone system we don't use anymore. What? not enough electrical plugs, just buy this new desk that has outlets in the top. BY the way, your TV is 18", it has to be 24". Creep, Creep, Creep. 2015, the same "rooms only" hotel which now may have a "Forever Young" mandate, has a Great Room, communal area with food for breakfast, lunch & dinner, The room as a 42" flat screen TV, a curved shower rod and a heavenly bed! It has a liquor license and a "Bistro" concept. Take those hard wired lines out and rewire your hotel for Free Wireless service. Make the lobby area inviting so that guests will leave their rooms, grab food and a drink and play on their laptops or smartphones. Sounds a little like "mid-market, full service" to me. Let me know when Bill Marriott or Conrad Hilton bring back Happy Hours and 2-for 1's in the lounge! James O'Connell is the principal of O'Connell Hospitality Group LLC, Danvers, Mass.

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