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## Hotel, motels and resort inns are benefiting from a very busy summer vacation season

July 30, 2015 - Spotlights

Mid-year review and exciting summer market update; market improvements in hospitality transactions continue, hotel, motels and resort inns are benefiting from a very busy summer vacation season and 2015 will be one of the best years the industry has seen for a long time.

There has been continued improvement in the hospitality market and as a result the number of transactions is increasing. Buyer demand is as high as it has been since 2006 and with the continued low interest rates it has been a very good time to sell or buy. Our brokerage firm is experiencing one of the best years ever as we have closed or will soon be closing a number of high profile transactions. Looking back now it appears that the years 2012 and 2013 were the transitional years for the return of hotel profits and the beginning of a hotel sales boom. Now in 2015 hotel sales have returned to levels we have not seen since 2006. Considering that revenues are on the upswing and that interest rates are still at low levels the hotel buyers are purchasing with the belief that values will continue to improve. Sellers are comfortable selling because the low interest rates create favorable pricing due to the low capitalization rates that accompany low lender interest rates.

Some statistics from our sales activity that may be of interest to many in our business includes 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 42-room independent hotel in one of New England's most desirable towns, Woodstock VT, at \$100,000 per key, that price is a benefit of being in a "high barriers to entry" market; a 104-room independent hotel (former Holiday Inn) at an interstate highway location for an "all in" price of \$32,000 per key and a 40-room hotel in New Hampshire that will be converted to a Days Inn for an "all in" price of \$32,000 a key.

Some of the properties under agreement and too close in the next couple of months:

- \* A multi-million dollar high profile historic inn in Massachusetts;
- \* Comfort Inn Maine, all in price of \$55,000 per key;
- \* Franchised hotel in Eastern Massachusetts, all in price of \$75,000 a key;
- \* Franchised hotel in New Hampshire, \$43,000 a key; and
- \* Owner-operator small motel in Maine with large owners quarters 3 times the room revenue.

So with this data in mind the two questions I receive the most are:

- \* What are the capitalization rates now?
- \* What is the selling price per room?

As you can see by some of our recent data the selling price per room varies substantially from property to property and so does the capitalization rate. I tend to have a little fun with it as when I am asked the question regarding capitalization rates my current stock answer is between and 13%, which of course, really not help anyone. Demand is the real key to the capitalization rate especially

in a low interest rate market; we see 6% to 9% rates on the high in demand limited service hotels such as Hilton and Marriott product as well as franchises like Holiday Inn Express. Rates on older hotels such as those converted from older Holiday Inns at 12% and in many cases 1.5 multiples of sales. Which brings up another issue, as it seems forever the rationale was that a hotel purchase could not go wrong if you paid 3 times the room revenue or in the case of seasonal properties 4 to even 5 times room revenues. These numbers are no longer really valid. Again it depends on demand, location condition type of property, is food and beverage involved. Also, the expense side has changed as well as expenses do run at a higher percentage of revenues than any time while I have been in the hotel brokerage business. It is nice to calculate a multiple of sales for some comparison purposes but it is not really indicative of value in today's marketplace.

Some trends we have been following for the past two years which continue to have 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"

The Urbanization of America; 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, ME and of course Boston. 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 which obviously bodes well for the construction of more high quality limited service and extended stay hotels

Older properties are coming out of the market to be replaced by other uses or for more up to date hotels obviously this is consumer driven. The new boutique hotel in Manchester Vt. which is under construction and to replace the now demolished Village Country Inn is a great example.

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.

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